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THE HONGKONG POPULATION PUZZLE

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1. THE PUZZLE

The last official census of population in Hongkong took place in 1931. The total number of persons living in the Colony at that time was 840,000 (rounded figure, excluding military personnel).⁽¹⁾ In 1941 an unofficial census was made by the air-raid wardens who arrived at the figure of 1,640,000.⁽²⁾ In May 1945 Japanese occupation authorities counted the persons living in the Colony and obtained the figure of 650,000.⁽³⁾ Since that time, i.e. for more than ten years, there has been no reliable estimate of Hongkong's population. Immediately after the end of the Japanese occupation (30th August 1945) there was a big immigration wave which brought back to the Colony most of her former residents who has sought refuge in China during the war. The time-length of this wave can be estimated at approximately two years but its numerical dimensions are unknown. This wave of "returnees" has hardly subsided when a new migration wave was superimposed on it under the pressure of political events on the mainland. It is known that this second wave reached its peak in 1949/50 but its total net effect is entirely unknown. The difficulty of estimating it will be appreciated when it is realized that a figure of almost 5.7 million is given as the official sum total of arrivals in and departures from the Colony in 1950/51. Since 1953/54 the Colony's immigration authorities have virtually stopped legal entry to Hongkong from China by introducing the policy of "one out—one in".

This being the situation, the Government of the Colony as well as various private individuals have been trying each year to estimate the size of Hongkong's population. The estimates for 1954 vary from, roughly, two to three million. Each estimate obviously produces an entirely different set of demographic data and an entirely different picture of the net migration effect. So far, however, none of the official or unofficial solutions have presented a coherent, logically convincing, empirically and historically verifiable setting of the component pieces of the puzzle.

The purpose of this article is to present an estimate which, although obviously not pretending to be a 100% accurate, seems to be the most consistent one from the point of view of both demographic principles and the broadly known facts about the behaviour of Hongkong's population in the course of the last ten years. The method employed here was arrived at in two stages. Firstly, by the process of "reductio ad absurdum" the conclusion was reached that the existing estimates are unacceptable and that, therefore, the methods on which they are based are erroneous. Secondly, by applying a modified version of the so called "Forty Percent Test" designed recently by Professor W. F. Wertheim of the University of Amsterdam⁽⁵⁾ a

This is the fifth article in the series of Mr. Szczepanik's Studies in the Economic Structure of Hongkong. Cf. this Review of October 28th, November 11th and December 16th 1954, and July 14th 1955.

solution was arrived at, which, after having been submitted to various checks, was found to be the most satisfactory one. These two stages of investigation, the solution and the checks are presented in the subsequent sections of this article. In the concluding section an attempt is made to estimate the population of Hongkong in 1955 and some suggestions are put forward concerning the provision of demographic data in the Colony.

2. REDUCTIO AD ABSURDUM

(i) Apart from various not very serious references to the "Three Million Mark" circulating in Hongkong and abroad,⁽⁶⁾ the highest published estimate appeared in "The Hongkong Exporter and Far Eastern Importer" where the population figure of the Colony for 1954 is placed around 2,750,000.⁽⁷⁾ If this figure were correct then the birth rate for 1954 would be 30.3 and the death rate—7.2. Both these figures would be very much below the corresponding rates for other Chinese communities in Asia. In Singapore, the average birth rate in 1946-1952 was 46.4 and the death rate—12.1. In Taiwan—the birth rate during the same period was 44.2 and the death rate—12.0. The death rate of 7.2 would be below the lowest death rate in Europe, i.e. below the death rate of 7.3 in the Netherlands where health conditions are so much better that even the so called "young structure" of Hongkong's population cannot be regarded as a compensating factor.⁽⁸⁾

(ii) Estimates were recently made by "Critic" in the Far Eastern Economic Review⁽⁹⁾ and by "A.B.C." in the South China Morning Post.⁽¹⁰⁾ These writers assumed that the birth rate and death rate in Hongkong cannot differ very widely from the rates in Taiwan, Singapore or Tientsin. "Critic" took as his first working assumption a birth rate of 34.0 for all years from 1948 to 1954 and arrived at the population figure of 2,450,000 for 1954. The assumption of a constant birth rate leads, however, to an unacceptable result that between 1953 and 1954 there was a net immigration of 166,000 persons, i.e. not much less than in 1949/50 when, according to "Critic's" estimate, the net immigration amounted to 182,000. As an alternative solution this writer suggested a birth rate equal to 40.0, putting it near the Tientsin figure. On this basis the 1954 population would be 2,080,000 and the 1953 population—1,888,000, giving a net immigration of 128,000 persons between 1953 and 1954. Both these solutions, therefore, although starting from sound premises, do not agree with the known facts about population movements between Hongkong and China in the course of the last five years.

(iii) In the article which appeared in the South China Morning Post "A.B.C." suggested that the birth rate in Hongkong should be equal to that in Tientsin, i.e. 43.0. On this assumption he arrived at the figure of 1,930,000 for 1954 and 1,740,000 for 1953, obtaining a net immigration for 1953/54

of 126,000, again not much less than in 1949, when the influx of refugees from China reached its peak (151,000 in the "A.B.C.'s" estimate).

(iv) Inconsistencies in the official estimates of Hongkong Government will be examined in detail in sections 5 and 6 of this article. Here we may quote some examples. The birth rate in these estimates fluctuates from 24.3 in 1947 to 36.6 in 1954.⁽¹¹⁾ This is contrary to the basic contention of demographic research that the birth rate is a fairly stable element in a given community. Moreover, the official birth rate rose almost overnight from 26.8 in 1950 to 34.0 in 1951. It fluctuates, therefore, from 24.3 in 1947 to 26.8 in 1950 and from 34.0 in 1951 to 36.6 in 1954. Either the 1947-1950 or the 1951-1954 birth-rate series is wrong, they cannot both be correct. From the study of birth rates in other Chinese communities it appears that the 1951-1954 series is the more probable one. If so, the obvious conclusion is that the official estimates of population for 1947-1950 were excessive. It seems that a grave error was committed in estimating the size of the population in this highly confusing period of 1947-1950. It will be shown later in this article that the estimates for this period contain an error of about 400,000 persons in excess of the true figure. This error continued in all the latter estimates so that even the 1954 figure is burdened with approximately the same error.

The lack of consistency in the official estimates persists even in the latest, 1954, Government Annual Report. On p. 17 of this Report the population at the end of 1954 is estimated at 2.5 million but on p. 110 of the same Report the number of births is given as 83,317 and the birth rate as 36.6. From these figures the mid-year population number of 2,276,000 can be deduced. If both figures on p. 17 and on p. 110 of the Report were correct, we would obtain a net immigration of 224,000 in the second half of 1954. Such a result would exhibit a most striking contradiction between the facts and the estimates.

3. THE FIFTEEN PERCENT TEST

The above discussion shows that during the last ten years there were no reliable estimate of the population in Hongkong. In order to arrive at a more satisfactory solution a new approach was necessary which would fully take into account all the available data. The post-war statistics at the disposal of a demographer in Hongkong include: (i) the number of births, (ii) the number of deaths, and (iii) infant mortality rates, all from 1946 onwards. It is interesting to note that in all the existing estimates the third of these data, i.e. infant mortality rate, has been entirely neglected. This rate, however, in a country deprived of regular statistics, presents an extremely important demographic tool which it was decided to utilize.

In order to employ the infant mortality rate as a tool of analysis it is necessary to have a clear

picture of the age structure of the population. Fortunately, two surveys of the Colony's age structure were available. One, an incomplete sample survey was carried out in 1950 by the Department of Medical and Health Services. The sample of 82,499 registration forms included only persons aged 12 and over and therefore it could serve only as an indirect check of the results of a later survey which was carried out in 1954 by the United Nations Refugee Survey Mission covering 17,682 persons of all ages. In addition to these two surveys, data concerning the Colony's age structure are available for the last two census years, i.e. 1921 and 1931.⁽¹²⁾

The age structure revealed by the 1954 Sample Survey was as follows:⁽¹³⁾

Table 1

Age	Percentage of the total population
0—4	14.65
5—14	23.59
15—21	8.89
22—44	39.53
45—60	10.28
61—over	3.06
Total	100.00

Before making use of the results of the 1954 Sample Survey it was necessary to check its age structure with the results obtained in 1921, 1931 and 1950. Direct comparison was possible only for the age group above 16 (or 15) years. The following table presents this comparison:

Table 2

Age group	Age group as a percentage of 16—over group			Age group	Age group as a percentage of 15—over group in 1954 Survey
	1921 Census	1931 Census	1950 Survey		
16—20	16.37	16.86	16.12	15—21	14.40
21—45	64.96	62.87	64.01	22—44	61.00
46—60	14.37	15.41	15.42	45—60	16.65
60—over	4.30	4.86	4.45	61—over	4.95
Total	100.00	100.00	100.00	Total	100.00

As this article is not concerned with the analysis of the Colony's age structure ⁽¹⁴⁾ it should be enough to notice here that on the whole the results of the 1954 Survey are compatible with the previous results. If so, the results concerning the per centual distribution of the age groups below fifteen should also inspire confidence in spite of a fairly wide divergence, if compared with 1921 and 1931 results, ⁽¹⁵⁾ as appears from the following table:

Table 3

Age group	Age group as a percentage of the total population			
	1921 Census	1931 Census	1954 Survey	1954 Survey
0—5	8.85	10.62	0—4	14.65
6—15	17.13	16.93	5—14	23.50
	25.98	27.55		38.24
16—over	74.02	72.45	15—over	61.76
Total	100.00	100.00	Total	100.00

A point which strikes as an interesting one is the fact that in the 1954 age structure the group 0-14, i.e. the number of children below the age of fifteen, amounts to 38.24% of the total population. This figure coincides very closely with the recent thesis of W.F. Wertheim that in "underdeveloped countries or population groups ... the proportion of the young (those under the age of fifteen) is about forty percent of the whole population".⁽¹⁶⁾ Wertheim supports his thesis by an analysis of the age structure of Indonesia, India, Columbia, Chile, Malaya and several African countries. The close similarity of the 1954 Hongkong Survey results and the results of Wertheim's analysis encourage to pursue the matter further. It appears that the percentage of children below five in the 1954 Hongkong Survey is also very similar to the percentage in the series analysed by Wertheim. In his analysis, this percentage varies according to the birth rate and infant mortality rate, being influenced mainly by the latter. Thus on the assumption that as a result of excess of births over deaths, the total population increases by 2% per annum Wertheim obtained the figure of 14.9% for infant mortality rate of 60 per mille, 15.4% for infant mortality rate of 150 per mille and 16.1% for infant mortality rate equal to 250 per mille.

In view of the absence of any reliable estimates as to the number of children below the age of fifteen it is not possible to apply to Hongkong Wertheim's "Forty Percent Test". It is possible, however, to apply its modified version which can be described as "Fifteen Percent Test," i.e. the principle that the number of children below the age of

five is approximately 15% of the total population. In this particular case, the 1954 Survey enables us to accept the more exact figure of 14.65%.

The bases of subsequent calculation were the following official statistics of the number of births and infant mortality rate:

Table 4

Year	Number of Births	Infant Mortality Rate
1949	54,774	99.4
1950	60,600	99.6
1951	68,500	91.8
1952	71,976	77.1
1953	75,544	73.6
1954	83,317	72.4

The next step was to convert the above figures for the periods from June to June (mid-year) as the 1954 Survey was carried out in June. Having

done this, it was possible to calculate the number of children born between June 1949 and June 1954 who survived to the age of one during this period. The results are presented in the following table:

Table 5

Year of birth	Number of Births	Infant Mortality Rate	Number of children surviving to the age of 1
1949/50	57,687	99.5	51,949
1950/51	64,550	95.7	58,376
1951/52	75,238	84.4	64,310
1952/53	73,760	75.3	68,206
1953/54	79,430	73.0	73,632

It is necessary to stress that in the above interpolation no account was taken of seasonal fluctuations. It was supposed that these would cancel out in the series as a whole. Furthermore, this calculation necessarily contains the usual error inherent in the calculation of infant mortality rate, i.e. no attempt was made to correct the lack of exact coincidence between the dates births and deaths of infants. This second error, however, cannot be very great in view of the comparatively small fluctuations in the infant mortality rate in the period under consideration.

In the calculation of the number of children who survived to the age of five, four, three and two it was necessary to make certain arbitrary assumptions as to the child mortality rate. The analysis of death rates for various age groups contained in the reports of the Medical Department enables us to assume that on average the child mortality rate for the group 1—4 was about 10 per mille. On this assumption the following table was arrived at:

Table 6

Year of birth	Children surviving to the age of					Total
	1	2	3	4	5	
1949/50	51,949	51,430	50,916	50,407	49,903	49,903
1950/51	58,376	57,793	57,215	56,643		56,643
1951/52	64,310	63,667	63,031			63,031
1952/53	68,206	67,524				67,524
1953/54	73,632					73,632
Total number of children below five in 1954						310,733

Applying the 14.65% ratio to the above total number of children below the age of five for June 1954 the total population of Hongkong in the middle of 1954 would be 2,120,000. With the number of births equal to 83,317, the birth rate would be 39.3 and with the number of deaths equal to 19,823, the death rate would be 9.3.

On the strength of the above reasoning it may be submitted as a fairly accurate estimate that in the summer of 1954 the population of Hongkong was around 2.1 million and that the rate of natural increase was about 3% per annum.

4. PAST TREND

The best proof that the above estimate is an accurate one would be the reconstruction of the post-war trend of population changes in Hongkong on the basis of the de-

mographic data which produced the 1954 estimate. This task is, however, an extremely difficult one, if not utterly impossible.

In any "normal" population, i.e. the one which is not subject to violent changes resulting from migration, fairly accurate results can be obtained by assuming a constant birth rate, death rate or some other parameter. In Hongkong such a method does not produce satisfactory results. As was pointed out above,⁽¹⁷⁾ constancy of birth rate was assumed in the articles of "Critic" and "A.B.C." leading to results which contradict the well known facts about the migration waves in Hongkong after the war. Constancy of the death rate cannot be assumed in view of the decline in the infant mortality rate which is a very important component element of the average death rate. For similar reasons it is impossible to apply uncritically the "Fifteen Percent Test" to the past demographic data.

It seems, however, reasonable to investigate the possible changes in the ratio of children below the age of five over a longer period of time in Hongkong. For this purpose the age structure in the 1921 and 1931 censuses was scrutinized. In 1921 the total number of children below the age of six formed 8.85% of the total population. In 1931 the same age group formed 10.62% of the total population. As there are good indications that by 1948 the population of the Colony had returned to its pre-war pattern,⁽¹⁸⁾ it is possible to assume, at least as a working hypothesis, that the age structure was very similar too.

In order to make the 1948 (or 1931) figure comparable with the 1954 data, the ratio of children below five, not six, had to be calculated. The figure of approximately 9.91% was arrived at. A further reasonable assumption was to postulate that between 1948 and 1954 the ratio of children below the age of five changed proportionately from 9.91 to 14.65. The following table shows the results of interpolation:

Table 7

Year	Percentage of children below the age of five
1948	9.91
1949	10.70
1950	11.49
1951	12.28
1952	13.07
1953	13.86
1954	14.65

The above table should be interpreted as reflecting the decrease in the infant mortality rate and the declining impact of refugees on the Colony's age structure. Both these assumptions seem to correspond to facts, although it is necessary to stress the arbitrariness concerning the choice of the 1948 ratio and the proportionality assumption as to the rise of this ratio between 1948 and 1954.

It is interesting, however, that the trend resulting from the above working hypothesis produces very plausible results. A fairly exact calculation of the number of children below the age of five was possible for the years 1951—1953. Similar figures for 1950 and 1949 could be obtained only on the estimate of children born in 1944/45 and 1945/46 which, in turn, enable us to make a rough estimate for 1948.

In the following tables the number of children below the age of five was obtained by the same method as the one employed in the 1954 calculations. It was convenient to work backwards, i.e. dropping the youngest age group and adding a new eldest (4—5) age group.

Table 8

Year	Number of births	Infant Mortality Rate	Number of children surviving to the age of 1
1949	54,774	99.4	
1948/49	51,124	95.2	46,487
1948	47,475	91.1	
1947/48	44,974	96.7	40,626
1947	42,473	102.3	
1946/47	36,785	95.7	33,265
1946	31,098	89.1	
1945/46	25,000 (est.)	90.1	22,750 (est.)
1944/45			10,000 (est.)

Table 9

Year of birth	Children in 1953 who survived to the age of					Total
	1	2	3	4	5	
1948/49	46,487	46,023	45,563	45,103	44,643	44,643
1949/50	51,949	51,430	50,916	50,407		50,407
1950/51	58,376	57,793	57,215			57,215
1951/52	64,310	63,667				63,667
1952/53	68,206					68,206
Total number of children below five in 1953						284,138

Table 10

Year of birth	Children in 1952 who survived to the age of					Total
	1	2	3	4	5	
1947/48	40,626	40,220	39,818	39,420	39,026	39,026
1948/49	46,487	46,023	45,563	45,103		45,103
1949/50	51,949	51,430	50,916			50,916
1950/51	58,376	57,793				57,793
1951/52	64,310					64,310
Total number of children below five in 1952						257,148

Table 11

Year of birth	Children in 1951 who survived to the age of					Total
	1	2	3	4	5	
1946/47	33,265	32,933	32,604	32,278	31,956	31,956
1947/48	40,626	40,220	39,818	39,420		39,420
1948/49	46,487	46,023	45,563			45,563
1949/50	51,949	51,430				51,430
1950/51	58,376					58,376
Total number of children below five in 1951						226,745

Table 12

Year of birth	Children in 1950 who survived to the age of					Total
	1	2	3	4	5	
1945/46	22,750	22,523	22,298	22,076	21,856	21,856
1946/47	33,265	32,933	32,604	32,278		32,278
1947/48	40,626	40,220	39,818			39,818
1948/49	46,487	46,023				46,023
1949/50	51,949					51,949
Total number of children below five in 1950						191,844

Table 13

Year of birth	Children in 1949 who survived to the age of					Total
	1	2	3	4	5	
1944/45						10,000
	(Estimate)					
1945/46	22,750	22,523	22,298	22,076		22,076
1946/47	33,265	32,933	32,604			32,604
1947/48	40,626	40,220				40,220
1948/49	46,487					46,487
Total number of children below five in 1949						151,387

Looking at the above figures for 1953—1949 it is possible to assume that the number of children below the age of five in 1948 was about 130,000. Thus the total number of population for the period 1948—1954 can be reconstructed as follows:

Table 14

Mid-year	Number of children below five	Number of children below five as a percentage of the total population	Total population
1954	310,733	14.65	2,120,000
1953	284,138	13.86	2,050,000
1952	257,148	13.07	1,967,000
1951	226,745	12.28	1,846,000
1950	191,844	11.49	1,670,000
1949	151,387	10.70	1,415,000
1948	130,000	9.91	1,310,000

Total population figures for 1945—1947 can be estimated roughly as follows: In the summer of 1945 the total population was 500,000—600,000.⁽¹⁹⁾ In the middle of 1946, according to the estimate of the Medical Department, the population was about 1,168,000 and in 1947 it was 1,214,000.⁽²⁰⁾ All these three estimates fit very well with the above series for 1948—1954.

Apart from the assumptions inherent in our working hypothesis, the main objection which can be raised against the above method of reconstructing the past trend of the Colony's population consists in the apparent neglect of children below the age of five who were not born in Hong-kong but came from China with their parents. There are several reasons for dismissing this objection. First, the percentage of children below five among immigrants could not be very high and probably never exceeded 5%, usually being far below it. Assuming, therefore, even a very high figure for annual immigration, say, 500,000, as put forward by some estimates, the total number of child immigrants would not exceed 25,000. As the immigration peak was in 1949/50 it would have little influence on the 1954 figures in view of the high infant and child mortality rates. Thus the 1954 estimate could be raised, at the maximum, to something like 2,200,000. Corresponding adjustments would have to be made for earlier estimates. These adjustments, however, are already taken care of by the comparatively high estimates of the number of children born in 1944/45 and 1945/46, much above the figures of children actually born in the Colony during these years.⁽²¹⁾ These are reflected in the 1949 and 1950 estimates, i.e. for the years which could be mostly affected by immigration. Finally, it is necessary to point out that the child mortality rate was calculated at 10 per mille, which is probably too low, this should also compensate for deficiencies in the estimates of the total number of children below the age of five.

Whatever is the truth, it seems that the above estimates present a hypothetical solution which both explains satisfactorily the immigration waves in the post-war period and conforms to the basic principles of demographic analysis, as will be shown below.

5. BIRTH AND DEATH RATES

Assuming the total population figures obtained above for the mid-years of 1945—1954, the following birth and death rates can be calculated:⁽²²⁾

Table 15

Mid-year	Total population	Number of births	Number of deaths	Birth rate	Death rate
1945	500,000-600,000	3,712	23,089	?	?
1946	1,168,000	31,098	16,653	26.6	14.2
1947	1,214,000	42,473	13,231	35.0	10.9
1948	1,310,000	47,475	13,434	36.3	10.1
1949	1,415,000	54,774	16,287	38.7	11.5
1950	1,670,000	60,600	18,465	36.2	11.1
1951	1,846,000	68,500	20,580	37.1	11.1
1952	1,967,000	71,976	19,459	36.6	9.9
1953	2,050,000	75,544	18,300	36.9	9.0
1954	2,120,000	83,317	19,823	39.3	9.3

The analysis of the above hypothetical series deserves attention. It indicates a birth rate in Hongkong that has a natural tendency to fluctuate around 40 per mille. This phenomenon is not a new one. According to the estimates of the Medical Department, in 1940, "the last year for which accurate figures are available,"⁽²³⁾ the birth rate was 41.9. The birth registration figures in the earlier years were not accurate, many of the children born not being registered. However, in the 1931 census the number of children below 12 months formed 31.9 per mille.⁽²⁴⁾ Taking into account the high infant mortality rate, estimated at 617.42 in 1931 and 557.5 in 1930,⁽²⁵⁾ it is easy to see that the birth rate in 1931 must have been at least 40 per mille. In view of what was said earlier about the birth rate in the Chinese communities of Singapore, Taiwan or Tientsin, a birth rate of about 40 per mille for Hongkong seems very probable. The birth rate in Hongkong has been subject to the pressure exerted by the immigration wave of 1945—1947 and then again of 1949—1951. The return of the birth rate to 39.3 in 1954 indicates the more static character of the Colony's population. It is reasonable to expect that in 1955 there should be a further rise in the birth rate. This point will be illustrated in the last section of this article.

It is interesting to note that the Medical Department in 1947 estimated the birth rate as equal to 35.0.⁽²⁶⁾ This rate, however, was subsequently changed to 24.3 in order to conform to the inflated estimates of the total population accepted by other Departments of the Government. As a result of this, we have the following series for 1946—1950:⁽²⁷⁾

Year:	1946	1947	1948	1949	1950
Birth rate:	20.1	24.3	26.4	29.5	26.8

From 1951 onwards, however, in order to comply with the new estimates of the total population, the birth rate in the official estimates entered an entirely different range:⁽²⁸⁾

Year:	1951	1952	1953	1954
Birth rate:	34.0	32.0	33.6	36.6

It appears that the first series puts the birth rate at too low a level and therefore the population estimates for this period are inflated. The 1951—1954 series is much more likely, but, as will be shown later, it is also incorrect because it is based on a fallacious estimate of the total population which makes no reference to the changing demographic structure of the Colony.

Our hypothetical series suggests that the birth rate in Hongkong was rising from 35.0 in 1947 to 36.3 in 1948 and 38.7 in 1949. This rate would probably exceed 39 per mille in 1950 were it not for the influx of refugees which, continuing at least to 1951, depressed the birth rate for about three years until it recovered again in 1954.

The analysis of our hypothetical past trend of the Colony's population shows also a very plausible way in which the death rate has been changing. As one would expect,

the series indicates a fairly stable declining trend with some obvious exceptions. The year 1946 is, of course, a period of flux and no special importance can be attached to this year's figures. But from 1947 to 1948 the death rate declined from 10.9 to 10.1 as a result of stabilization of the population and improving health conditions. The rise in the death rate in 1949 to 11.5 can be explained by the influx of refugees and a deterioration in health conditions as indicated by the rise in the infant mortality rate from 91.1 in 1948 to 99.4 in 1949 and 99.6 in 1950. In 1951 the infant mortality rate fell to 91.8 and in 1952 to 77.1, producing a fall in the death rate to 9.9 in 1952 and 9.0 in 1953. All these figures seem to be fully consistent both with the facts and with theory.

The Government estimates, on the contrary, are again inconsistent. The Medical Department's initial estimate of the death rate for 1946 and 1947 was 14.2 and 10.9 per mille respectively. These figures were subsequently abandoned and we are presented now with the following figures:⁽²⁹⁾

Year:	1946	1947	1948	1949	1950	1951	1952	1953	1954
Death Rate:	10.7	7.6	7.5	7.8	8.2	10.2	8.6	8.1	8.5

The above series is, first of all, exceedingly low when compared with other countries in Asia and, in fact, with the world as a whole, as was indicated at the beginning of this article. Secondly, the death rate in 1954 would be higher than in 1947, 1948 and 1950, although it is known that the main factors influencing the death rate are the levels of infant mortality rate and the incidence of death from tuberculosis, and not senility, and although there have been marked improvements in the medical care in the Colony in the course of the last seven years. In the official series the death rate in 1951 is almost the same as in 1946 which seems unlikely. The conclusion follows that the total population estimates from which the above series is derived were incorrect, i.e. that the total estimates as a whole were inflated and that particularly the 1946—1950 estimates were far in excess of the true figures.

In the case of the death rate analysis, comparisons with the pre-war period cannot be made because the pre-war death rate was connected with an entirely different system of medical care in the Colony. The infant mortality rate alone fluctuated from 617.42 in 1931 to 327.0 in 1940⁽³⁰⁾ whereas after the war it fell to 102.3 in 1947 and 72.4 in 1954.⁽³¹⁾ Thus the crude death rate in 1940 was estimated at 56.9 (Hongkong Government Annual Report 1946, p.62) or at least 33.48 (Annual Report of the Medical Department for 1950/51, p.12). These remarks, incidentally, should be sufficiently convincing to prove that an attempt at analysis based on the behaviour of death rates is misleading. A suggestion was recently voiced in the Colony to estimate the population on the basis of the death rate, apparently without any thought of the implications of such a suggestion.⁽³²⁾

To conclude this section it is worth while to indicate that the hypothetical series arrived at by our "Fifteen Percent Test" gives an approximate average death rate of 10 per mille for the period 1947—1954. This seems to support the view that the child mortality rate assumed by us in the calculation of the number of children below the age of five was not excessive, but was perhaps too low, which, as was pointed out, could act as a compensation for omitting to take into account the number of child immigrants.

6. IMMIGRATION

An interesting check of this hypothetical solution can be obtained from the analysis of immigration estimates. The following table will serve this purpose:

Table 16

Year	Mid-year population	Total increase	Natural increase (calendar years)	Adjusted natural increase (mid-year periods)	Net immigration (mid-year periods)
1945	500,000—600,000		—19,377		
1946	1,168,000	600,000(?)	14,445	?	600,000(?)
1947	1,214,000	46,000	29,242	21,000	25,000
1948	1,310,000	96,000	34,041	31,000	65,000
1949	1,415,000	105,000	38,487	36,000	70,000
1950	1,670,000	255,000	42,135	40,000	215,000
1951	1,846,000	176,000	47,920	45,000	130,000
1952	1,967,000	121,000	52,517	50,000	70,000
1953	2,050,000	83,000	57,244	55,000	28,000
1954	2,120,000	70,000	63,494	60,000	10,000

The series presented above shows clearly two big immigration waves. The first is the wave of "returnees" which came to an end sometime in 1948. It would seem that already in 1946 or 1947 the population could have doubled if compared with the bottom reached at the end of the Japanese occupation in the summer of 1945. This wave was a very big one and can be estimated at approximately 700,000 persons. The wave of "returnees" had hardly ended when a new wave of refugees began to flood the Colony, reaching its peak between the middle of 1949 and the summer of 1950.⁽³³⁾ It would appear that this wave of refugees subsided sometime in 1951/52 and since that time the last three years have been a period of comparative stabilization of the Colony's population. The whole series reflects, of course, only the waves which have produced a permanent effect on the Colony's demographic structure by being absorbed by it. Temporary changes may have been much greater, but, like tourists in any country, they have not produced any lasting effect on the population size and structure. It would be misleading, therefore, to add this highly volatile population figures to estimates which are supposed to serve some purpose in any demographic, economic or sociological analysis. Thus it is possible to admit that e.g. in 1950 the population of the Colony at any given time might have been far in excess of the above presented estimate of 1,670,000 but any such number would be deprived of any analytical significance and should be avoided. The total size of the immigration wave of refugees can be estimated, on the basis of the above series, at about 500,000 persons. They have become an integral part of the Colony's present population, have married and have produced children in Hongkong. As a result of this process, their children born in Hongkong and their Hongkong born wives have become members of "refugee" families, increasing automatically the extent of the Colony's refugee problem. This question exceeds the scope of this article but it deserves mentioning because it has an important bearing on the refutation of some alternative estimates.⁽³⁴⁾

In the table which follows an attempt is made to reconstruct the immigration waves on the basis of the official estimates. This reconstruction necessitated reference to all the Annual Reports of the Hongkong Government for the period 1946—1954 because many of the earlier estimates have disappeared from the subsequent Reports. In some

cases the missing information had to be collected from the reports of the Medical Department.

Table 17

Year	Mid-year population	Total increase	Adjusted natural increase	Net immigration	Net emigration
1945	500,000—600,000				
1946	1,600,000	1,000,000(?)	?	1,000,000(?)	
1947	1,750,000	150,000	21,000	130,000	
1948	1,800,000	50,000	31,000	20,000	
1949	1,857,000	57,000	36,000	20,000	
1950	2,265,000	408,000	40,000	368,000	
1951	2,015,000	—250,000	45,000		295,000
1952	2,250,000	235,000	50,000	285,000	
1953	2,250,000	—	55,000		55,000
1954	2,276,000	26,000	60,000		34,000

In the above table it was necessary to take for 1954 the population estimate resulting from the birth rate and the number of births quoted on p. 110 of the 1954 Report. The estimate of 2,500,000 quoted on p. 17 of this Report cannot be taken seriously if put in the same series as the 1953 estimate of 2,250,000.

The contrast between Tables 16 and 17 is striking. It would appear from Table 17 that the wave of "returnees" ended in 1948 but brought to the Colony about 1,150,000 persons, with the bulk of about 1,000,000 coming in 1945-1946. For the sake of the argument, let us suppose that it was true. Assuming that the population in 1949 was 1,857,000 and in the middle of 1951 2,015,000 we obtain a total increase for 1949-1951 equal to 158,000 persons. As the natural increase in 1949-51 amounted to about 85,000, the net effect of the big refugee wave of 1949-51 would be only 73,000 immigrants. Admitting that amongst them there could be still some "returnees" we would come to the conclusion that the Colony had practically no refugee problem in 1951. But the existence of refugees could not be denied which called for a revision of either pre-1951 or post-1951 estimates of the total population. The Government decided to increase the 1952 estimate to 2,250,000.⁽³⁵⁾ If, however, the previous official estimates (including 1951) were correct then we would have to infer that the refugees came to Hongkong in 1952, three years after the victory of the Communists in China.

In 1953 the Government assumed that the total population had not changed⁽³⁶⁾ but the change in fact amounted to a net emigration of 55,000 persons in view of the extent of the natural increase. On the 1954 medical estimates, a further emigration of 34,000 took place in 1953/54. As a result, we obtain the following total effect of the refugee wave in 1949-1954:

Immigration	653,000
Emigration	384,000
Net Immigration	269,000

If, on the other hand, we consider the estimate of 2.5 million (p. 17 of the 1954 Report) the number of refugee-immigrants in the Colony would increase to 450,000—500,000.

It appears from the above analysis that the Government estimate for 1952 was artificially inflated. This net artificial increase for 1951—1954 amounted to about 200,000 persons and this error is still inherent in the official estimate of 2.5 million for 1954. The 1951 official estimate (2,015,000), however, although probably the most accurate one⁽³⁷⁾, was still excessive by 170,000—150,000 persons, according to the analysis carried out in section 5 of this article. The total error in the 2.5 million estimate for 1954 amounts, therefore, to approximately 370,000. If this is deducted, we would come almost exactly to the estimate arrived at as a result of our "Fifteen Percent Test", i.e. the figure of about 2,120,000 persons for the middle of 1954.

The extent of the post-war migration in Hongkong was enormous and explains errors committed in population estimates. According to police reports, the total movement to and from the Colony in 1949/50 was estimated at about 4.5 million.⁽³⁸⁾ In 1950/51 recorded movements to and from the Colony by sea, land and air amounted to the astonishing total of 5,769,730.⁽³⁹⁾ It is difficult to estimate the net effect of these mass movements but these figures illustrate well the point that the peak immigration must have been in 1949—1951, as is indicated in our hypothetical solution. This total movement figure dropped to 2,238,903 in 1951/52 and again to 1,338,435 in 1952/53 and slightly rose to 1,479,356 in 1953/54.⁽⁴⁰⁾ Again, the trend of these figures seems to correlate very well with the net immigration figures resulting from our hypothetical solution.

7. THE 1955 ESTIMATE

What was the truth about the population in Hongkong during the period 1945—1954 will probably never be discovered. The only existing reliable data (number of births and deaths and the infant mortality rates) are not sufficient to produce accurate estimates for the past years. Throughout this article a hypothetical solution was tested which was based on the assumption that the ratio of children below the age of five in 1948 and in 1931 was the same. It is, of course, impossible to substantiate this assumption but the following considerations speak in its favour:

The year 1948 was the first year of comparative normality of the Colony's population structure. The wave of "returnees" had just ended and the wave of refugees had not yet begun. During the years of 1946—1947 the proportion of children below the age of five in the total population could have declined below the 1931 level. On the other hand, from 1948 onwards, with infant mortality rate far below the 1931 level, the proportion of children below the age of five had to go up, steadily increasing above the 1931 level to reach the ratio of 14.65% in 1954.

An indirect proof of this contention can be obtained from the study of the proportion of 0—1 year group in the 0—4 group:

Table 18

Year	0—1 group as a percentage of all children below the age of five
1949	30.7
1950	27.0
1951	25.7
1952	25.0
1953	24.0
1954	23.8

Assuming that the birth rate could not undergo very great changes, the declining proportion of 0—1 group within the group of children below five would indicate that this group as a whole was assuming a greater share in the total popula-

tion of the Colony. There are, naturally, too many variables to enable us to estimate accurately the changes in the "Fifteen Percent Ratio" between 1948 and 1954. We have assumed, therefore, a proportional growth over time, thinking that changes in the age structure can never be very violent. The author of this article has tested also other assumptions, such as e.g. constant 14.65% ratio or a ratio adjusted to the changes in the infant mortality rate⁽⁴¹⁾ but all these alternative tests have produced far less satisfactory, or even contradictory results. To sum up, in the absence of more complete demographic data, the trial and error method has shown that the assumptions underlying the hypothetical solution outlined in this article are more justified than any other tested so far. This does not, of course, exclude the possibility of finding a better solution and the present author would welcome any suggestions or hints in this respect in order to have a better picture of the past changes and a more perfect tool for population projections. The knowledge of these past data is important for various purposes, such as social accounting, unemployment estimates, etc. which, at the moment, depend almost entirely on guesses.⁽⁴²⁾

Having stressed strongly the hypothetical character of the 1946—1953 estimates it is possible to point out that the 1954 estimates arrived at in section 3 of this article are much more accurate and illustrate fairly well the true position. If so, they can be regarded as a good basis to estimate the situation in the summer of 1955.

The number of births during the first half of 1955 was 39,292. As a rule, in Hongkong children born during the first half of a year form about 45% of the total number of births during a given year. It is thus possible to estimate the total number of births for 1955 at 86,800. The number of deaths in the first half of 1955 was 9,880. Seasonal fluctuations in this case are negligible, hence it is possible to estimate the total number of deaths in 1955 at 19,800. The total natural increase during 1955 can thus be estimated at 67,000. In 1954 the natural increase was equal to 63,000 (rounded figure). Hence the natural increase for June 1954—June 1955 can be estimated at 65,000. As at mid-1954 we estimated the total population at 2,120,000, the corresponding figure for 1955 would be about 2,185,000, assuming that there was no major migration effect, which seems to be reasonable in view of the strict frontier control enforced throughout the period under examination. With a total population of 2,185,000 in mid-1955 and the estimated number of births of 86,800, the birth rate for 1955 would be 39.8 and the death rate (assuming the total number of deaths at 19,800) would be 9.2. This would mean a slight increase in birth rate (from 39.3 to 39.8) and a slight decline in death rate (from 9.3 to 9.2) if 1955 data are compared with the 1954 data.

Reproduced below, as a matter of interest, is a tentative estimate of the "Fifteen Percent Ratio" for 1955. The age group 0—1 in this calculation is estimated on the 1954 infant mortality rate as the 1955 rate is not yet known.

Table 19

Year of birth	Children in 1955 who survived to the age of					Total
	1	2	3	4	5	
1950/51	58,376	57,793	57,215	56,643	56,077	56,077
1951/52	64,310	63,667	63,031	62,401		62,401
1952/53	68,206	67,524	66,849			66,849
1953/54	73,632	72,896				72,896
1954/55	75,090					75,090

Total number of children below five in 1955 333,313

Assuming that the mid-1955 population was 2,185,000 the ratio of children below the age of five would be approx-

ximately 15.3%. This figure seems to be a well fitting projection of the 1948—54 series of the "Fifteen Percent Ratio" employed as a tool of demographic analysis developed in this article.

It is obvious that the exact knowledge of a country's population can be obtained only from a census. At the moment, the next population census in Hongkong is planned for 1961. In view of the absence of reliable official estimates it would be highly desirable to have also an interim census in 1956. The cost of such a census may be estimated at about a quarter of a million HK dollars. If this proves to be impractical, efforts should be made to carry out in 1956, and in the subsequent years preceding the next census, a sample survey of the age and sex structure of the Colony's population. Other data, such as employment, housing, rent, etc. could be also conveniently sampled on the same occasion. The cost of such a sample survey would be far below that of a census and the results obtained sufficiently accurate not only to solve the Colony's population puzzle but also to provide an accurate basis for the appreciation and solution of various economic, social, educational and even political problems of Hongkong.

REFERENCES

(1) The results of the 1921 census were published in a Report written by W. J. Carrie.

(2) This figure refers to March 1941 and it is estimated that the pre-war peak was reached in 1940. The following figures show the estimated growth of the Colony's population between 1931 and 1940:

1931	840,473	1937	1,281,982
1932	900,812	1938	1,478,619
1933	922,643	1939	1,750,256
1934	944,492	1940	1,821,893
1935	966,341	1941	1,639,357
1936	988,190		

Source: Annual Departmental Report by the Director of Medical and Health Services for the Financial Year 1950/51; p. 9; Hongkong 1951.

The influx of 1937 and later years was brought about by the Sino-Japanese war.

(3) K. J. Heasman of the Department of Economics, University of Hongkong, in a paper on "Japanese Financial and Economic Measures in Hongkong" written in July 1945 (only for private circulation) quotes the following figures for the occupation period:

1942 (rough census)	1,000,000
1944, February (estimate based on rice tickets)	850,000
1945, March (estimate based on the number of residents certificates)	500,000

(4) With effect from August 15th 1955, for a period of one month only, Cantonese from China were allowed to enter, if, on presenting themselves at the border, they could prove that they were bona fide residents of Hongkong. The possession of a Hongkong Identity Card, issued not less than six months prior to the date of presentation at the frontier, was taken into account in considering a claim to be a bona fide resident of Hongkong.

(5) Cf. W. F. Wertheim: "The Forty Percent Test—A Useful Demographic Tool"; Economics and Finance in Indonesia Vol. VIII, No. 3; Djakarta, March 1955.

(6) In a memorandum on "Building and Development in Hongkong" published by the Hongkong Reform Club we read: "From information available from various welfare organizations the correct figure might be at present about three million." Cf. Far Eastern Economic Review Vol. XIX No. 4, Hongkong, July 28th 1955, p. 119.

(7) "The Hongkong Exporter and Far Eastern Importer 1954"—compiled and published by C. M. Wolosh in conjunction with F. E. Skinner (H.K.) Ltd., Hongkong 1954, p. 79. On p. 9 of this publication we read: "The latest enquiries into its population indicate that this population is now nearer three millions than two and a half." The authors do not mention which "latest enquiries" they have in mind.

(8) Cf. United Nations Demographic Yearbook 1953.

(9) Cf. "Population Estimates of Hongkong", Far Eastern Economic Review, Vol. XIX, No. 2, July 14th 1955.

(10) South China Morning Post, Hongkong, July 22nd 1955.

(11) Cf. Annual Departmental Report by the Director of Medical and Health Services for the Financial Year 1950/51, p. 11, and Hongkong Annual Report 1954, p. 110.

(12) Age structure resulting from 1921 and 1931 censuses and from 1950 Sample Survey is presented in the above quoted Report of the Director of Medical and Health Services for 1950/51, p. 10.

(13) The results of the 1954 Sample Survey will be published soon in the forthcoming Report on the Problem of Chinese Refugees in Hongkong submitted to the United Nations High Commissioner for Refugees by Dr. E. Hambro, Chief of the Hongkong Refugees Survey Mission. The author of this article acted as Statistical Consultant to the Mission.

(14) The author intends to analyse the age, sex and occupational structure of the Colony in another article. Some of the provisional results of this analysis indicate that the estimate of 2,120,000 for 1954 is fairly accurate, but may be somewhat excessive.

(15) As was mentioned above the 1950 Survey was confined to a sample of population above 12 years, hence it was impossible to use it for the comparative analysis of lower age groups.

(16) W. F. Wertheim op. cit. p. 164.

(17) See section 2 (ii) and (iii).

(18) For proof of this contention see section 6 below.

(19) Cf. Hongkong Annual Report 1954, p. 16.

(20) Dr. S. G. Davis in his "Hongkong in its Geographical Setting", Collins, London 1949, p. 92, quotes that in February 1946 the population of the Colony was estimated, on the basis of rice registration, at 1,000,000. A secondary check of the number of people in 1946 can be obtained from the number of births in this year which was 31,098. In 1936, the last prewar "normal" year, the number of registered births was equal to 27,383 and the population estimate was 988,190. It would appear, therefore, that the population in the middle of 1946 could be between 1,100,000 and 1,200,000. The Medical Department's estimate for 1946 was 1,168,815 (cf. Hongkong Annual Report 1946, p. 61) and for 1947—1,214,762 (cf. Hongkong Annual Report 1947, p. 83).

(21) For instance in 1945 the number of children born in Hongkong was only 3,712 (cf. Annual Report of the Medical Department for 1950/51, p. 11) whereas we assumed that the number of children of the age 4—5 in 1949 was 10,000.

(22) The numbers of births and deaths are taken from the Hongkong Annual Report 1954, p. 110, and the Annual Departmental Report by the Director of Medical and Health Services for the Financial Year 1950/51, p. 11 and 13.

(23) Hongkong Government Annual Report 1946, p. 61.

(24) According to the results of the 1954 Sample Survey, this percentage of children below 12 months of age would be 34.9 per mille.

- (25) Cf. Annual Report of the Medical Department for 1950/51, p. 15.
- (26) Cf. Hongkong Government Annual Report 1947, p. 83.
- (27) Cf. Annual Report of the Medical Department for 1950/51, p. 11.
- (28) Cf. Hongkong Annual Report 1954, p. 110.
- (29) Cf. Annual Report of Medical Department for 1950/51, p. 13 and Hongkong Annual Report 1954, p. 110.
- (30) Cf. Annual Report of the Medical Department for 1950/51, p. 15.
- (31) Cf. Hongkong Annual Report 1954, p. 110.
- (32) Cf. editorial article in the South China Morning Post of August 3rd, 1955.
- (33) From May 1950 controlled immigration of all Chinese persons was introduced and prior permission to enter the Colony was required. Cf. Hongkong Annual Report by the Commissioner of Police for the year ended the 31st March 1950, p. 34.
- (34) For further discussion of the refugee problem see E. F. Szczepanik: "The Fate of the Hambro Report on Hongkong Refugees" (Far Eastern Economic Review, Vol. XIX, No. 5, August 4th, 1955) and the forthcoming Report of Dr. E. Hambro. It should be pointed out that the estimate of the total number of refugees should take into account refugees "sur place", i.e. those immigrants who came to the Colony before 1949 but could not return because of the political changes on the mainland.
- (35) Cf. Hongkong Annual Report 1952, p. 27.
- (36) According to 1953 Report, 707,139 persons entered and 747,525 persons left the Colony which could be regarded only as a proof that there was a further drop in the number of refugees. (Cf. Hongkong Annual Report 1953, p. 21).
- (37) The reader should note great care with which the 1951 estimate was presented (cf. Hongkong Annual Report, 1951, p. 24) and the remarkably sudden change in the series of birth-rate and death-rate statistics indicated in section 5 of this article. It is very likely that the author of the 1951 estimate would put it somewhere between 1,900,000 and 2,000,000 but was prevented to do it by the thought that in such a case the official figures would completely wipe out the problem of 1949—51 refugees. This, of course, would not be necessary if, instead, the 1946—1950 estimates were corrected, e.g. by reviving the early postwar estimates of the Medical Department.
- (38) Cf. Hongkong Annual Report by the Commissioner of Police for the year ended the 31st March 1950, p. 34.
- (39) Cf. Annual Departmental Report by the Commissioner of Police for the Financial Year 1950-51, p. 35.
- (40) Cf. Hongkong Annual Departmental Report by the Commissioner of Police for the Financial Year 1951/52 (p. 51), 1952/53 (p. 50) and 1953/54 (p. 47).
- (41) Empirical investigation suggests that the Fifteen Percent Ratio may be a hyperbolic function of the infant mortality rate with the birth rate as a parameter.
- (42) Cf. R. A. Ma and E. F. Szczepanik: The National Income of Hongkong 1947—1950; University of Hongkong Press, 1955.

PROSPECTS FOR TRADE WITH CHINA

By a Foreign Trade Observer

PART I

"China," an official (Lu Hsu-chang) of the China National Import and Export Corporation has written recently, "with her huge potentialities for economic progress and foreign trade, is willing to develop good business relationships with the governments and peoples of all countries, to come into closer contact with them and to promote mutual understanding and friendship." With words such as these China has been trying, since about 1952, to interest governments and businessmen in the "capitalist" world in increasing their trade with her. Any one who feels tempted to accept this invitation at face value would do well to examine closely the history of China's foreign trade since the Communist seizure of power in 1949, the procedures employed by China in her foreign trading, and the actual terms of trade which would exist if any expansion took place.

Britain and Japan in China's Prewar Foreign Trade

From the late 19th century to the Second World War, the United Kingdom's share of China's total foreign trade showed a steady decline. In 1870 she furnished 36.8 per cent of China's imports and took 52.0 per cent of her exports; in 1936 these figures were 11.7 per cent and 9.2 per cent respectively. The share of Hongkong (which served mainly as an entrepot and whose figures therefore overlapped those of the United Kingdom somewhat) under these same headings was respectively 29.6, 18.5, 9.2, and 15.2 per cent.

In terms of investments the situation was better, from the British standpoint; as of 1930, total British investments in China approximated 245 million pounds in value, or one-third the value of all foreign investments in China. In addition, a substantial income was earned from carriage of goods to and from China in British bottoms, until the closure of the Yangtze River by the Japanese military authorities in 1937.

The Chinese Communist view of British enterprise in China is clear, and exactly what one would expect; in a book entitled "British Enterprises in China and Their Profits," published by the People's Publishing Company in Peking, the Chinese Communist Party economist Wei Tsu-chu set forth this view in these words: "British enterprises in China have a history of over 100 years and their investments took the form of a combination of colonial grabbing plus special rights conferred by unequal treaties. In profits, they excelled even those in India. Firstly, British investments in China were entirely direct investments. In other words, full use was made of those British enterprises which have main or branch offices in China under the special privileges of the treaty ports and the protection of extra-territorial rights. This is the original and stereotyped mode of Imperialism by exploiting surplus labour in the Colonial areas."

Trade with China accounted for only a small portion of Britain's total foreign trade. China took only 3.2 per cent of Britain's total exports during the period 1866-1870, and furnished only 3.4 per cent of her total imports; the figures for 1936 were .9 and 1.16 per cent respectively. The balance of trade was in Britain's favor after about 1880, although China enjoyed a favorable balance of trade with Hongkong after 1931.

China's principal imports from Great Britain were cotton piece goods and sundries, raw cotton and cotton yarn, wool, silk textiles, metals and ores, machinery and tools, vehicles and vessels, fishery and sea products (from Hongkong), drugs and spices (from Hongkong), wines and spirits, dyes and varnishes, books and paper, and hides and leather (from Hongkong). Her main exports to Great Britain were animal products, soybean products, fruits (to Hongkong), oils and tallow (to Hongkong), vegetables (to Hongkong), paper (to Hongkong), and ores and metals.

The trade relationship between the two countries during this period has been summarized by a presumably non-Communist Chinese economist (Chiu Hsu-yao), in a dissertation to the University of Birmingham in these words: "China depended on the trade of the United Kingdom, both as an export market and as an import supplier, to a greater extent than the United Kingdom depended on China's trade. Because of the small proportion of China's trade in the total trade of the United Kingdom, it is easier for the latter to cut off any of the supply from China. This in fact occurred during the war. On the other hand, as capital goods are in urgent demand in all parts of the world, it is also not difficult for the United Kingdom to divert exports to countries other than China.

Probably the main beneficiary of the declining British share in China's prewar foreign trade was Japan. It was Japan who had taken the lead in extracting from China, by the Treaty of Shimonoseki in 1895, the right for foreign concerns to establish industrial enterprises in the treaty ports of China. After that Japan's share in trade with, investments in, and carrying trade with China increased steadily until by 1929 she was taking 25.3 per cent of China's total exports (as against 7.2 per cent for the United Kingdom's share in that year). By the late 1930s, when Japan controlled all of Manchuria and the coastal regions of China Proper, trade with China accounted for over 30 per cent of Japan's total foreign trade. "I should say," says a British Member of Parliament (Julian Ridsdale) with long experience in Japan. "it is the experience of those years from 1938 to 1945 which gives such a magnetic pull to Japanese business men to resume trading with the Chinese, plus the urgent necessity to get coking coal, iron ore, salt, and soya beans from China." The reasons for Japan's greater success, as compared with Great Britain, in acquiring an increasing share of the China trade were mainly geographical proximity, lower costs, and of course military control over much of China.

Chinese Communist Commercial Policy

For an understanding of the real nature of Chinese Communist policy toward international trade, and of what that policy would probably be if the presently existing restrictions on trade between Western nations and China were relaxed, it is necessary to consider the broad lines of Chinese policy before the imposition of the United Nations embargo on the shipment of strategic goods to China in May 1951.

On May Day, 1950, the chief theorist of the Chinese Communist Party, Liu Shao-chi, said with reference to the promulgation of a new set of customs regulations and a new

customs administration: "China's industry from now on will not suffer the competition of the cheap commodities of the imperialists. China's raw materials will first of all supply the needs of her own industry. This clears away one of the biggest obstacles i.e. a low tariff regulated by treaty that has hindered the development of China's industry for the past hundred years.

Although this statement accurately indicates China's underlying attitude toward trade with the "capitalist" nations, the Central People's Government followed during 1950 a policy of actively promoting exports, with the result that China showed an almost unheard of favorable balance of trade for that period (52.23 per cent of her total volume of foreign trade, measured in monetary terms, consisted of exports). In 1951, however, as a result of large-scale imports designed to forestall or frustrate the tightening embargoes being imposed against China, the balance became unfavorable once more, and the result was of course a serious drain on China's scanty holdings of foreign exchange. This in turn led to the adoption, in March of 1951, of a set of regulations designed to establish barter as the main method of trading in the future. Barter procedures still remain the dominant feature of China's foreign trade.

Even after the adoption of barter, China continued to be plagued by the problems resulting from an import surplus. The ways in which she hoped to meet these problems were listed in an authoritative article published in September 1951 as promotion of exports, greater standardization of exports, cuts in transport and packing costs, better salesmanship, and encouragement of remittances by overseas Chinese. The article neglects to mention that one of the methods adopted to attain this last objective was pressure on and threats to individuals in China with relatives abroad.

The article, written in Chinese by Li Shou-tzu and addressed to a domestic audience, continues by laying bare China's real inhibitions on trade with the free world, with a frankness that contrasts sharply with most Chinese writings on the subject designed for foreign consumption. Excessive dependence on markets and sources of supply in the "capitalist" world, the writer points out, will tend to leave China at the mercy of fluctuations in the world market. China, he says, is beginning to produce herself, or to find substitutes for, former imports from the West such as salt-petre, silicon, oxidized zinc, dyes, penicillin, and sulfa. Capitalist goods he pronounces generally expensive and often of poor quality.

This deeply ingrained distrust of the operations of a free economy is the basic reason why China will never permit, embargo or no embargo, anything more than a limited and strictly controlled trade with the "capitalist" world. Two recent verdicts on Chinese commercial policy bear this generalization out. The first is by a non-Communist Chinese economist, educated partly in England (Wu Yuan-li): "First, regulated trade with non-Communist countries will be encouraged to flow with as much volume as cracks in the Western embargo system will permit, with these provisos: (a) that virtually all imports will precede exports; (b) that no favorable trade balance will be allowed to build up—unless by Communist intention; (c) that strategic exports, if released for sale to the capitalist countries at all, will be exported in exchange for only the most essential imports; (d) that any monopolistic advantage attained by China as buyer or seller—as well as any temporary market advantage it may enjoy—will be exploited to the fullest in order to assure the country the best trade terms possible. Second, Chinese communist trade with Soviet bloc countries and "neutrals" will be expanded to provide replacement for markets and sources of supply lost as a result of foreign economic sanctions."

The second verdict was delivered by the "Far Eastern Economic Review" of Hongkong, which is not averse to an expansion of trade with China: "Few traders here seem to realise that the lifting of the embargo would not bring much business to them because of the trade policy of Peking. Under prevailing conditions in China, which cannot be expected to undergo a change unless political changes occurred, the trade of Hongkong will of necessity continue to be centred more on Far Eastern neighbors, the Commonwealth countries and local manufacturers' export promotion while China trade, embargo or no embargo, will remain stagnant."

Chinese Commercial Organization and Procedures

In March 1949 the Communist authorities in North China set up a Foreign Trade Control Office for that region, with the power to license exports and imports and to control foreign exchange transactions. In March 1950, after Communist authority had been extended to the entire country, six state trading companies were created under the jurisdiction of the Ministry of Trade to conduct China's foreign trade; one dealt in bristles, one in tea, one in minerals, one in oils and fats, one in general exports, and one in general imports. Since then the organization of trade has changed somewhat; the Ministry of Trade was subdivided in August 1952 into the Ministry of Foreign Trade and the Ministry of Commerce, and the principal state company which now deals with foreign trade is known as the China National Import and Export Corporation. This organization appears to have superseded the six former agencies mentioned above, and it now controls probably 90 per cent of China's foreign trade.

Like other governmental, party, and military organs in China, the Ministry of Foreign Trade and the China National Import and Export Corporation have recently been compelled to engage in soul-searching "self-criticism" to make amends for alleged misdoings. For example, Li Che-jen, one of the Vice Ministers of Foreign Trade, admitted in the spring of 1953 that his ministry had been guilty of appalling inefficiency, and he accused the China National Import and Export Corporation, among other things, of having imported an extra and unneeded 800 tons of graphite electrodes from Germany. Accusations of this type need not be taken very seriously as statements of fact, for Communist writers tend to exaggerate their shortcomings as well as their achievements.

Not only are the virtual monopolization of foreign trade by the state, and the deflection of trade toward the countries of the Soviet bloc where foreign trade is also a state monopoly, congenial to the inclinations of Chinese officials, but these actions also have the desirable effect—to them—of increasing the prices of their exports on the world market.

The classification of exports and imports is governed by a number of complicated regulations whose effect is to leave only a few commodities available for private Chinese trading, to restrict trade in most commodities (such as bristles, soybean products, coal and ores among exports, and gasoline, metal products, and rubber among imports) to the appropriate state agency or agencies, and to designate certain commodities (such as tungsten and steel) as strategic commodities whose import or export is subject to the special permission of the State Council. One of the objects of this system of classification is to prevent the export of strategic or other badly needed goods in exchange for non-essentials.

Since March 1951, the basic method of foreign trading employed by China has been barter. According to official explanations, such as the following by one of the Vice Ministers of Foreign Trade (Lei Jen-min), this is an eminently satisfactory procedure: "Trade is done in the form of direct barter, thus saving both parties and particularly the capitalist countries, from difficulties in payments. Moreover,

the goods that are bartered meet the requirements of the respective parties. Prices are reasonable.

The capitalist nations whose payments difficulties are the object of this concern, however, have found the barter system less satisfactory. "The present system of barter settlement for individual cases," says a Japanese source, "has proved unfit for long-range and planned quantities. Traders generally favor adoption of a kind of open-account settlement formula involving use of the other party's country mutually, or a combined barter system."

The barter system, whose main object is to counteract the effect of China's slight holdings of foreign exchange, works as follows. In the first place, it is governed by the general principle that import is preceded by export. In the first of the four main types of barter, direct barter, the quantities and prices involved are agreed on in advance with the foreign supplier or agent. In the second type, escrow barter or clearing, exports from China are not even arranged until after importation. In the third type, link barter or compensation, the Chinese exporter imports only after the completion of export; this type is obviously an exception to the rule of import preceding export, and is allowed only in rare cases. In the fourth type, back-to-back barter, exports and imports are shipped simultaneously and are covered by letters of credit or "mutual credit guarantees;" this type is also frowned on by the Chinese authorities since the imports may never reach China.

Only the first and fourth of these procedures are suitable for use in connection with large-scale and long-range exchanges of goods, such as those provided for in the various recent trade agreements signed by China with foreign governments and unofficial trade missions.

Special regulations were made to cover the exceptional case of Hongkong. Before the introduction of the barter system in March 1951, and again for a few months after October 1951, the Chinese authorities allowed traders on the mainland to buy from Hongkong by means of a document known as an "authority to purchase," provided that sufficient foreign exchange was available to cover the transaction; the exporter was paid by a Chinese bank in Hongkong as soon as the goods had been shipped. This proved unsatisfactory to the Chinese regime, however, and was replaced by a system of documents known as "letters of guarantee," which allowed payment for exports from Hongkong only after the goods had arrived, been tested, and been accepted. This latter system allowed the Chinese arbitrarily to reject goods, or pay for them at lower prices than those agreed on, on the plea of inferior quality.

The Shift to the Soviet Bloc

Since the outbreak of the Korean war the Soviet bloc has accounted for an increasing share of China's foreign trade: in 1950, 26 per cent; in 1951, 61 per cent; and in 1952, 72 per cent. The Soviet bloc produces most of the commodities which China needs (the main exception being rubber). The Chinese congratulate themselves on this trend, which, according to a Vice Minister of Foreign Trade (Lei Jen-min) "ensures an uninterrupted supply of up-to-date technical equipment and other essential materials, as well as outlets for China's own ever-increasing production. It also frees her from being affected by economic crises in the capitalist market."

A less glowing version is given by Mr. H. J. Collar, a British businessman with 30 years experience in China with Imperial Chemical Industries, Ltd.: "China has turned first to the Iron Curtain countries for her needs, and it is fairly clear that she has not been able to get the things she requires. Our embargo has hit them, not so much perhaps because they cannot get the goods they require—they may not have

suffered much in that direction—but they have undoubtedly had to pay heavily for what they have had to buy from the Iron Curtain countries. There is specific evidence of this in so far as Eastern European countries have been reselling China's produce at prices far below those at which China is willing to sell on the open market. That can be done only if large profits have been made on what has been sold to China. It has not taken China long to learn how unsatisfactory this is."

Further indications that all is not well in China's trade relations with the Soviet bloc appeared in 1952 and 1953, when a number of Chinese missions journeyed to Moscow to seek Soviet help in China's forthcoming Five Year Plan. Among the pilgrims was the Minister of Foreign Trade, Yeh Chi-chuang, who stayed in Moscow from November 1952 until June, 1953. One can imagine what Communist propagandists would say if the President of the Board of Trade left his London office and spent seven months in secret negotiations in Washington. In mid-January 1953 the Chinese authorities announced that the original construction goals set for the first year of the plan had been reduced by 30 per cent, allegedly because of a shortage of equipment, materials, and skilled labor, but in reality probably because the hoped for volume of Soviet aid and trade was not forthcoming.

Embargoes Against China

Licensing of strategic exports to China, and embargoes on certain exports such as munitions, was begun by the United States even before the outbreak of the Korean war, and by the governments of the United Kingdom and Hongkong shortly after its outbreak. On May 17, 1951, as a result of Chinese intervention in the war, the Political and Security Committee of the United Nations General Assembly voted 45-0 to urge upon all states, whether members of the United Nations or not, an embargo on the shipment to the Chinese mainland of strategic goods such as arms, ammunition, other military equipment, atomic energy materials, petroleum, and strategic transport equipment. The nations of the Soviet bloc did not participate in the discussion or voting; Afghanistan, Burma, Ecuador, Egypt, India, Indonesia, Pakistan, Sweden, and Syria abstained. It was the first time that Yugoslavia had voted with the majority on any question connected with the Korean war.

Since that time most members of the United Nations (except, of course for the nations of the Soviet bloc) have abided by the spirit of this resolution; each government determines its own list of strategic goods subject to embargo, but policy on this matter is coordinated to some extent by a Coordinating Committee (COCOM), which meets in Paris. Japan, although not a member of the United Nations, has also maintained an embargo on strategic exports to China. The governments of Great Britain and Hongkong, though permitting and even encouraging licensed trade with China in non-strategic goods, have maintained extremely strict controls on strategic goods. The United States and a few other countries have gone further and have prohibited all exports, and not merely strategic exports, to China, and the United States has also banned trade with Hongkong in goods considered to be of Chinese origin or destination.

The official Chinese attitude toward the embargo is that it hurts the Western nations more than it hurts China. "The combined economic strength of the Soviet Union, China and the People's Democracies," boasts Chi Chao-ting, Secretary General of the China Committee for the Promotion of International Trade, "is so great that no embargo nor blockade can really hurt us." Other Chinese writers have predicted that "internal contradictions" (in other words, disagreements over embargo policy) within and among the "capitalist" countries will lead some exporters to defy the embargo and smuggle prohibited goods into China.

The Chinese have not been entirely disappointed in this expectation. In March 1953 it was reported that ships, not only of Soviet but also of British, Italian, Danish, Norwegian, Polish, Finnish, and other registry, had been anchoring at the island of Lafsami (southwest of Hongkong) without calling at Hongkong, and had been unloading goods, possibly strategic as well as nonstrategic. Most of the non-Soviet ships engaging in this trade seem to have been tramp steamers not belonging to any large or reputable firm.

Since the signing of an armistice in Korea on July 27, 1953, there has been increasing agitation in such countries as the United Kingdom, Hongkong, and Japan for a scrapping or drastic relaxation of the embargo. Chinese Communist commercial policy, however, is only one of the barriers to any large increase in trade if the embargo were modified. The past history of Communist China's commercial relations with the Western nations, and her actual capacity to export and import in the future, also hold out little hope of improvement.

The Fate of British Firms in China

Perhaps the worst blot on China's record in her commercial dealings with the free nations is her treatment of British firms established in China, whose expectation of being able to trade normally with the Communist regime was one of the main reasons for Great Britain's recognition of it in January 1950.

Since 1950 British enterprises in China have been severely harassed by the Communist authorities, the worst case being the "requisitioning" (in other words, confiscation) of the property of the Asiatic Petroleum Company, a subsidiary of the Shell Oil Company, in April 1951. Acts of this sort led the British government, with the apparently unanimous approval of the firms (such as Jardine Matheson and Company, and Butterfield and Swire), to notify the Central People's Government on May 19, 1952, that all private British investments in China would be liquidated as soon as possible. The British note expressed the hope that compensation would be forthcoming, but no one seems seriously to have expected that it would.

Since then the firms in question have been trying, in the face of every possible obstruction from Peking, to liquidate their holdings in China. For example, Mr. Cedric Blaker, Chairman of the Hongkong and Shanghai Banking Corporation, reported to the shareholders in 1954 that the Bank had offered to make "very considerable sacrifices in order to get a speedy overall settlement in liquidating its business in China but negotiations have proved difficult and progress has been painfully slow."

It is not hard to find examples of less restrained language. Mr. Collar, already referred to, gave his view of the situation in September 1953: "The position of British commercial interests in China today is thoroughly unhappy. We are not today the masters of our own destiny. We are to a very large extent at the mercy of Chinese officialdom. Of all our particular problems, one of the largest is the fact that most of us have far more staff on our pay-rolls today than we can possibly afford to keep. Virtually, we are not allowed to discharge them, and many unfortunate employers have found that not only do they have to pay their normal staff, but added to their pay-rolls are many who in the past have been only casual employees. The most we can do in China today is to act as brokers—I am speaking of the merchant class—and for that we need only a small staff. Therefore, we have many more staff than we are allowed to keep, but we are not allowed to discharge them without permission of the Government, and that is not given unless at the same time we virtually close down. The fact that profits cannot be remitted is not a very serious

problem. In the first place, very few people have profits to remit."

The Far Eastern Economic Review published this opinion (Oct. 22, 1953):—"Britain has itself had some experience—nearly all disillusioning—of commercial relations with the new regime in China. The Chinese have violated every principle of international commercial relations. They have expropriated British property without compensation; made hostages of British employees of the firms still in China and held them to ransom; restricted the movement of British businessmen into and out of China and subjected them to numerous humiliations; and punished foreign firms with discriminatory tax measures, as well as heaping on other heavy burdens. They have much to make up for, before British merchants will have confidence in reopening trade relations with them."

Even the willingness of the British firms to give their property to the Central People's Government without some compensation, if necessary, in order to get their personnel safely out of China, has not borne much fruit. An official of one such firm after a period of semi-confinement in Shanghai, gave vent to his feelings to the American correspondent Joseph Alsop: "First you've got to offer them your own property on a golden platter, and politely plead with them to accept it as a gift. Then you've got to sweeten the deal by putting a bit of cash on the platter, too. And then they hold you for ransom for six months or a year. And after that you're out of business and, thank God, out of Communist China, too."

British Trade Negotiations with China

It must have been a considerable source of embarrassment to Peking that the British note of May 1952 followed by about a month the International Economic Conference in Moscow, whose announced object was to foster increased East-West trade. Nothing, however, has been able completely to extinguish the hope of some British firms that some day, somehow, they will be able to resume large-scale trade with China. In June 1952 the "Far Eastern Economic Review" wrote:—"The glory of British trade may have temporarily departed from China, but no one can doubt that it will survive though possibly under a different form. From the chaos surrounding new developments in the country, one stable factor emerges: China must trade. When the senseless war in Korea is ended and China is free once more to devote herself to the rehabilitation of her people and country, there will be a crying need for practically everything, and British merchants will have their share in filling this need."

With this object in view, the unofficial British delegation at the International Economic Conference at Moscow (April 3-12, 1952) negotiated with the Chinese delegation an agreement for an exchange of 10 million pounds worth of goods. The aftermath of this agreement was described by Foreign Secretary Eden to the House of Commons on May 20 in these words: "We have done all we could to take up the so-called Moscow agreements, and we do not even get an answer. Trade is a two way traffic and if people won't answer your communications you cannot get very far."

Another unofficial British delegation, headed by Sydney Silverman, Labour Member of Parliament, went to East Berlin in June 1952 and negotiated with the purchasing mission which the Central People's Government maintains there, an agreement for the sale of 6,500,000 pounds worth of British textiles and chemicals to China, conditional upon the purchase of Chinese goods of equivalent value.

After the International Economic Conference at Moscow a Council (or Committee) for the Promotion of International Trade was established in each of the countries which had sent delegations to the conference. The British council, under the chairmanship of Lord Boyd Orr, seems to have been relatively inactive or unsuccessful during 1953. Only one Anglo-Chinese trade agreement is known to have been signed during that year; it was negotiated by a British delegation in Peking. It called for about 15 million pounds

worth of total trade, but nine months later its implementation was still incomplete. Goods to the value of 6 million pounds were refused export licenses by the Board of Trade.

The following year, 1954, saw a great outburst of activity on the part of British business organizations interested in increasing Anglo-Chinese trade, such as the Council for the Promotion of International Trade and the Federation of British Industries. In March a group of British businessmen representing thirty-five firms postponed a scheduled visit to East Berlin when the representatives of the China National Import and Export Corporation in that city said that they were not ready to see them. Later the official East German news agency announced that the postponement had been requested by the British businessmen themselves. Sixteen members of the delegation were actually in Berlin when the postponement was announced; they accomplished little, beyond learning that the Chinese disliked dealing with private individuals and would greatly have preferred to negotiate with some such entity as the China Trade Committee under the chairmanship of Mr. Roland Berger, to which the British government objected.

Late in April a group of forty-seven British commercial representatives succeeded in opening negotiations in East Berlin. Among the industries represented were shipbuilding, chemicals, rolled steel, machine tools, non-ferrous metals, textile machinery, diesel engines, electrical equipment, scientific instruments, and textile raw materials. Some contracts were signed, but on the whole the negotiations seem to have had little success, partly because of the limited interest on the British side in buying Chinese goods, and partly because the Chinese seemed to feel that after the Geneva Conference trade would be possible on a more or less unrestricted basis.

Meanwhile, the Federation of British Industries had been trying to work out a more satisfactory basis for trade with China than had so far been possible. On March 29, 1954, with the approval of the British government, the Federation sent a letter advocating increased trade in non-strategic goods to Minister of Foreign Trade Yeh Chichuang. The message was received in mid-April and forwarded to the Chinese delegation in Geneva. At the beginning of May a reply was received from Vice Minister Lei Jen-min in Geneva who invited Mr. Peter Tennant, the Overseas Director of the Federation, to talk with him at Geneva, which was done on May 6-7 and May 26-28. At the second series of meetings Mr. Tennant submitted a list of available British goods not embargoed by the Board of Trade, and it was agreed that for the first time a Chinese trade mission should visit the United Kingdom. Lei expressed special interest in building materials and prefabricated buildings, chemical and pharmaceutical products, textile raw materials, and scientific instruments, and said that his ministry would work out—two years after the International Economic Conference in Moscow, it should be noted—a list of possible Chinese exports to the United Kingdom.

Early in June the Chinese delegation in Geneva announced acceptance of the invitation extended by the Federation of British Industries, the Association of British Chambers of Commerce, the China Association, the London Chamber of Commerce, and the National Union of Manufacturers, to send a Chinese trade mission to the United Kingdom. It was to consist of seven officials and to be led by two Deputy Managers of the China National Import and Export Corporation. Another British mission was to visit China later.

The Chinese mission stayed in the United Kingdom from June 28 to July 14; it visited sixteen factories and discussed such matters as the status of Hongkong (a few months earlier a Chinese map had been published showing Hongkong as a part of China), the position of private British

merchants in China, and possible means of payment. The main observable result was a statement by the mission of China's desire to expand her trade with Britain, provided British exporters were willing to wait for payments until the goods actually arrived in China.

In the latter part of November a group of twenty-eight British businessmen under Mr. W. G. Pullen, General Manager of the Chartered Bank of India, Australia, and China, and with Mr. H. J. Collar as secretary, reached Peking. The delegation represented some thirty British firms engaged in banking, trade, and the manufacture of machine tools, automobiles, electrical equipment, chemicals, and pharmaceutical products (including the Hongkong and Shanghai Banking Corporation, Imperial Chemical Industries, Leyland Motors, Matheson and Company, Union International Company, Marconi Wireless Telegraph Company, Glaxo Laboratory, the General Electric Company, China Engineers Limited). They were received and entertained by Tsao Chung-shu, Acting General Manager of the China National Import and Export Corporation, who had been one of the leaders of the Chinese trade mission to Britain the previous summer. The only known result of the mission to date is a joint statement issued by the two sides and broadcast by the Peking radio on December 2:

The delegation of British industrialists and businessmen visiting China organized by the Sino-British Trade Committee in Great Britain has been negotiating with the China National Import and Export Corporation, the various national corporations, and the Bank of China since Nov. 22, 1954. Negotiations have been carried out in a friendly and cordial atmosphere.

The present visit by the delegation has been arranged following discussions between the Sino-British Trade Committee and the Chinese trade mission during their visit to the United Kingdom in July, 1954. The main purposes of the present visit of the delegation are to discuss matters relating to the further development of business between both sides, and at the same time to negotiate concrete business.

Within a period of nearly 2 weeks, the delegation has signed a number of business contracts with the China National Import and Export Corporation and the various national export corporations, and in order to assure regular supplies, long-term contracts for several commodities have been signed. Views also have been extensively exchanged relating to the respective requirements and supplies of both sides, thus creating favorable conditions for the development of future trade.

Several problems of a general nature relating to the development of trade have also been discussed with satisfactory results. Preliminary arrangements have been made for another visit to Peking in March 1955 of British industrialists and businessmen to be organized by the Sino-British Trade Committee.

Both sides recognize that the present visit is fruitful and will be helpful to the development of Sino-British trade. As a result of the visit and discussions, it is clear that the commodities that can be exchanged by China and Great Britain are numerous and there is ample scope for further development of Sino-British trade, particularly when normal trade relations are fully restored.

Contrast the extreme vagueness of this declaration—no amounts or commodities are specified—with the terms of the Sino-Indonesian trade agreement, ratified in January 1955 and published in the same month. Although the latter agreement provides for an exchange of only 3 million pounds worth of goods in each direction, its text occupies five printed pages and specifies the commodities (although not the precise quantities of each commodity) which are to pass each way. Two other features of this agreement are worth noting: it was negotiated between two governments, rather than between the Central People's Government and a group of private foreign businessmen; and it provides that China is to export to Indonesia several types of goods also to be found on the list of possible British exports to China which was submitted by Mr. Tennant at Geneva (cotton piece goods, cotton yarn, cotton knitted goods, textile machinery, power equipment, machine tools, other machinery, electrical appliances, food and beverages, chemicals, and sporting goods). China, in other words, claims to be in a position to export to Indonesia commodities which British merchants hope to be able to sell to China; if China already produces or holds these commodities, she is not likely to import them from the United Kingdom.

(To be Concluded)

FARMER'S COOPERATIVES—A REVOLUTIONARY CHANGE IN THE PHILIPPINES

In common with the inhabitants of other underdeveloped countries, the people of the Philippines are engaged in a great undertaking: the raising of living standards as speedily as possible by democratic means.

To achieve this goal, the Filipino people are called upon to perform a number of difficult things. They have to repair the ravages of the second world war, which inflicted grave injuries upon their country. They have to overcome the after-effects of nearly four centuries of colonial history. They have to modernize and diversify their national economy under the abnormal stresses of the "cold war". And they have to do all these within the short time permitted by the pressure of their own irrepressible desire for a better life.

This is a report on one aspect of rural reconstruction: the improvement of credit and marketing facilities through cooperative action under the auspices of the ACCFA—the Agricultural Credit and Cooperative Financing Administration.

In a very real sense the heart of the problem—and the master-key to its solution—lies in what happens or fails to happen in the 18,000 villages of the Philippines. By and large, it is in these villages that the age-old problems of poverty, hunger, and disease must be faced and mastered. It is in these villages that the main challenge of subversion must be met and overcome. And it is in these villages that the capacity of a free society to provide a secure and abundant life for all the people must be demonstrated and vindicated.

It is for this reason that so much importance is attached to the ACCFA's work by the Philippine Government. Its operations constitute a promising approach to the formidable task of rural reconstruction.

The Farmer's Situation

The Philippines is an agricultural country. Of the total land area of 29.7 million hectares, 18.1 millions are available for agriculture and 3.6 millions are actually under cultivation. Of the cultivated area, 2.6 million hectares are devoted to the production of rice, the main staple.

The population, now over 21 millions, increases at the rate of 2 percent a year. Distribution of population varies from 10 to 25,000 people per square kilometer. Almost three-fourths of the population live under antiquated conditions of production in the rural areas.

An index to the nature and extent of the problems of rural reconstruction in the Philippines is provided by the social and economic situation of the average Filipino farmer. Of the country's 1,638,000 farmers, 775,000 rent all or part of the land they till. In the principal rice producing provinces, the incidence of tenancy goes as high as 89%. The average size of farms is 3 hectares, with more than one-half of all farms being less than 2 hectares each. Production is below 30 cavans (sacks) of palay (unhusked rice) per hectare. The harvest is generally shared on the basis of 55 percent to the tenant and 45 percent to the landowner, with the tenant contributing besides his labor roughly 50 percent of the cost of production.

In the rural areas, outside of farming which represents only 130 days of actual work in a year, there are few regular opportunities for employment.

Expert studies on the subject indicate that the average income of a farmer's family is less than P700 a year. National per capita income is computed at approximately P341 per annum. An average Filipino family consists of five members.

To finance his production, the small farmer has had to depend on unlicensed private moneylenders, often the landowners themselves, who often charge usurious rates of interest: in many cases as high as 300 percent. Before the establishment of the ACCFA, there were virtually no credit institutions to which the average farmer had access.

Distribution or marketing of agricultural produce is still largely controlled by middlemen, mostly aliens, who dictate prices at the producers' as well as the consumers' end.

These conditions, which have existed for decades, have engendered a sense of futility and hopelessness among the peasantry. They have numbed incentive and depressed the productive impulse. In certain sections of the country,

they have provided a fertile breeding ground for violent uprising and organized revolt.

The task of stimulating economic and social development under these conditions is a difficult one. The problems posed are extremely complex. But a sound approach has been found in a program of rural reconstruction on the basis of aided self-help.

The program has many component aspects—road reconstruction, irrigation, soil conservation, modernization of agricultural methods and techniques, extension services, improvement of health and sanitation, general education, rural credit development, land distribution, land tenure reforms, etc. All these have a common goal: the raising of living standards among the rural population.

Within this over-all plan of rural reconstruction, the ACCFA's own program of cooperative development and farm credit has been stirring the barrio folks in the Philippines to a new sense of hope and opportunity for economic improvement.

Through this program, two vital and dynamic factors of production and progress are introduced in the hitherto stagnant rural areas. These are organization and credit or capital.

Broadly, the program seeks to organize farmers into cooperative associations through which credit is made available to the farmers without requiring collateral or security. The cooperatives are at the same time financed and systematically developed into effective instrumentalities through which the farmers can secure services which heretofore were inaccessible to them. These services include efficient marketing facilities, procurement of essential commodities, technical assistance in production, etc.

The immediate objective of the cooperatives is the establishment of an orderly marketing system that will insure the enjoyment by the producers themselves of the profits from distribution of agricultural products. The realization of this objective is expected to provide more income for the farmers, offer a strong incentive to greater productive effort, and generate healthy economic activity that will spread in widening circles to other sectors of the national community.

The FaCoMa

Under the ACCFA's auspices, a new institution is drawing the Filipino farmers together in cooperative endeavor for their common wellbeing.

This is the FaCoMa—short for Farmers' Cooperative Marketing Association which has been springing up in the rural areas with the vigor of healthy rice seedlings. Over 250 of these organizations have been established in as many municipalities in 40 out of 52 provinces into which the country is divided, with an aggregate membership of nearly 113,000 farmers. The number of these associations is expected to increase to over 300 units and members may exceed 200,000 within the next six months.

Like all corporations, each of these FaCoMas is registered and operates as a private corporation and has its business office, its officers and employees, and its own capital raised through stock subscription by the members. The combined capitalization of these associations is over P14 million.

A traveler through the principal rice-producing provinces of the Philippines today will not fail to notice the standard signboard of the FaCoMa in front of a busy office, a brand new warehouse or one under construction. Fifty five of these installations have been completed. About 80 more are to be constructed. Associations that are not ready to buy or build their own warehouses lease or rent these facilities from local operators. In due time, every one of

the FaCoMas will have its own warehouse, processing plant including accessory equipment, a truck or two for hauling and other essential modern agricultural and marketing facilities.

By the close of the current agricultural season (about May) the FaCoMas are expected to be handling about 4 million cavans of palay which they will process into rice and market themselves for their members. For the first

time this year, and to the extent of almost 5 percent of the total rice production,[†] farmers will have control over the marketing of their produce. This is expected to increase steadily every year with more cooperatives organized and more farmers joining the movement.

The activities of the FaCoMas are not limited to marketing of members' produce. They include all phases of production, principally credit. They are branching out very rapidly to merchandizing and, initially on a limited scale, to crop diversification, manufacturing, and other services. Of the 244 FaCoMas 45 are operating commodity exchange stores for the benefit of members; at least one has set up a wooden shoe manufacturing plant; 3 are producing cement hollow blocks, and several more are developing various home industries.

Initial benefits derived from cooperative action are inspiring the FaCoMas to seek greater strength through larger organization. Federations of FaCoMas on a provincial level are being formed. One provincial federation is now in operation while a dozen others are preparing for registration. The provincial federations, in turn, are pointing towards a national association.

By the very nature of these farmers' organizations, they are providing an effective medium through which agricultural and other projects of the government can be channeled effectively. Already, the FaCoMas are serving as distributing (sales) agencies for fertilizer.* They are being used as agents of the National Rice and Corn Corporation (NARIC) for both distribution of rice and purchase of palay. In the tobacco provinces, they are the buying agents of the ACCFA which by law is obliged to buy Virginia leaf tobacco from the growers. Agricultural extension and rural health service projects find the FaCoMas a very practical means of communication and contact with the rural people.

In the exercise of its authority, the ACCFA has formulated certain basic policies and regulations in the organization of farmers' cooperative associations. Among these are:— (1) Emphasis on the marketing type of cooperative. Preference for stock to the non-stock association. (2) Establishment of only one FaCoMa in one municipality. A minimum of 200 members and P50,000 capitalization per cooperative before an association can be accepted for affiliation with ACCFA. (3) Priority in organization and financing of marketing cooperatives in areas where the major crop is rice.

The promotion and development of the FaCoMas are supported and sustained by a special program of credit and financing which constitutes ACCFA's major activity.

Credit Without Collateral

From ancient times, the lack of capital has been a cruel dilemma to the average Filipino farmer. It reduces his capacity to produce or to expand production and at the same time compels him to give away in heavy usurious interest charges and lopsided crop-sharing system a large portion of his harvest. There are no credit institutions open to him for the simple reason that he usually has no real property to offer as security. Obviously, if the farmer must be assisted, credit must be made available to him, without collateral being required.

In resolving this dilemma another difficult problem has had to be solved. How can credit be extended to the individual farmers, of whom there are more than a million,

unless an enormous, expensive and perhaps unwieldy administrative organization were established?

Both obstacles have been satisfactorily overcome through an integrated program of cooperative development and credit financing. By grouping the farmers into FaCoMas, credit is channelled to the farmer through cooperative associations: the ACCFA does not deal directly with individual borrowers. And, what is probably even more significant, loans could be extended safely without collateral. Group responsibility plus the basic honesty of the average farmer and his personal stake both in the success of his cooperative and in the continuance of his new source of credit have proved to be sufficient security for ACCFA loans.

To meet the credit requirements of the farmers, the ACCFA has designed two types of loans—personal loans for the individual members of affiliated FaCoMas, and cooperative loans for financing certain activities of the FaCoMas. The loans are so inter-related that each operates to increase the repayment capacity of the farmers and the FaCoMas.

Personal loans are given in three forms for specific purposes:

1. The Farm Improvement Loan is intended to enable the farmer to acquire work animals, farm tools and implements, etc. It is given in kind with the FaCoMa handling the purchase. The maturity period is from one to three years depending on the improvement involved.

2. The Crop or Production Loan is given to finance the essential production expenses of the farmer from the time he prepares the land to the time he harvests the crop. This loan is released in instalments in accordance with a farm budget which indicates the item and amount of expense as well as length of time the amount is needed. Included among the items is subsistence aid to the farmer's family during non-income months between the planting and harvest season. This loan is payable within 270 days from the date the first instalment is released to the farmer.

3. The Commodity Loan provides advances equivalent to 80% of the current market value of palay or commodity deposited in the FaCoMa warehouse while the farmer is waiting for his stock to be marketed. Under the ACCFA policy, this loan is made to operate also to liquidate loans previously obtained and which have matured or are due to mature.

A condition to the grant of the first two types of loans requires the farmer to execute a marketing agreement pledging to deliver for deposit and marketing a specific quantity of palay and/or an acceptable commodity. The value of the commodity pledged is the basis of the amount of credit a farmer may obtain.

Cooperative loans are of two kinds: (1) facility loans and (2) merchandising loans. Facility loans are given to enable a FaCoMa to construct and/or acquire a warehouse, rice mill, or processing plant, trucks, and other essential facilities. The amount of the loan may be from 80% to 100% of the cost of the facility depending on its nature and make. The loan is amortized in 10 equal yearly instalments.

To provide additional revolving funds that would enable the FaCoMa to purchase palay, a merchandising loan in the amount not exceeding P5,000 has been made available to cooperatives. Through this financing assistance, which is given only to associations having rice mills, a FaCoMa can increase its volume of milling operation and sale of rice. From the income to be derived from this operation the FaCoMas' repayment capacity is strengthened.

The interest on all types of ACCFA loans is fixed by law (Republic Act 821) at not more than 8 percent per

[†] 1953-54 rice production was estimated at about 73 million cavans. This crop year, the expected total harvest is about 74 million cavans.

* A significant project of the government with the assistance of the Foreign Operations Administration (FOA) of the U.S. is the introduction of fertilizer in agriculture to increase production.

annum. At present, the ACCFA charges 7 percent on crop and farm improvement loans, 6 percent on commodity loans and 8 percent on facility and merchandizing loans. In addition, however, FaCoMas are allowed to collect up to 5 percent service fee on personal loans. This is intended to provide a source of income for the FaCoMas to defray administration costs. This is one way of safeguarding the capital of the FaCoMas.

On all personal loans, an amount equivalent to five 5 percent (of the individual loans) are withheld by the ACCFA as a form of insurance against bad debts. Upon full settlement of loans obtained by a FaCoMa for its members, the sum is turned over to the FaCoMa and converted into additional stock investment of farmers concerned. In this way, the investment of members is increased and the capital of the FaCoMas is built up.

The soundness of this credit plan is demonstrated by the record of repayment. When the first set of crop loans fell due last June, 1954, an overall repayment of over 90 percent was registered, with very good indications that the balance will be collected. Compared with the record of returns on similar types of loans extended—and with collateral too—by commercial banks in the country, the ACCFA collection rating is considered unusually high.

Crop loans have increased from P2,306,071 last year to P12,100,714 as of February 28, 1955. For the same period, farm improvement loans rose from P522,820 to P4,832,457 and facility loans from P272,400 to P1,273,743. Commodity loans last year were limited to P272,400. This year P20 millions is earmarked for the purpose. Total loans this crop season are expected to exceed P40 millions. Individual farmers served last year numbered 28,291. By the end of the current season, the number is estimated to reach 100,000.

At the rate with which it has gained support and advanced in its implementation, this project can become a significant factor in overcoming the inertia and helping to expand economic activity in the rural areas.

Organization and Administration

The administration of the credit program as well as the development of the FaCoMa is carried on through a scheme of organization in which the FaCoMas and the ACCFA work in a complementary and coordinated manner. This is reflected in the organization of the FaCoMas and the ACCFA.

The basic structure of a FaCoMa consists of barrio loan committees, the board of directors and the management. The barrio loan committee is usually made up of 2 or 3 members, with one of them serving as chairman, who are elected by the members of the cooperative in a barrio. This committee acts as the eyes and ears of the cooperative in the barrio. It processes membership and loan applications in the territory and submits recommendations and projects affecting the members and the barrio as a whole to the board of directors. It is, in a sense, the local extension of the FaCoMa board of directors and, more indirectly, of the ACCFA.

A barrio or a group of adjacent barrios forms a district and each district elects a representative to the board of directors which is the policy-making body for the FaCoMa. The board may have 5, 7, 9 or 11 members, depending on its by-laws. The directors elected from the districts in turn elect their president, vice-president, secretary and treasurer and appoint the manager. Under ACCFA regulations, the president, manager and treasurer are bonded officials.

The manager, together with such assistants as may be needed and appointed, handles the administrative activities of the FaCoMa. Between the manager and the members of

the board of directors, with the cooperation of the barrio loan committee, the operations of the FaCoMa are blue-printed and carried out under the supervision of the ACCFA's representatives.

At the top of the ACCFA's organizational and functional structure is a board of governors appointed by the President of the Republic, with the concurrence of the commission on appointments of the Congress. The Chairman of the Board is, by law, also the Administrator.

Operations are distributed among five departments, with subdivisions. These departments are (1) Cooperative Development and Financing, (2) Plans and Programs, (3) Engineering and Supplies, (4) Administrative, and (5) Accounting. Serving as technical and advisory units are the Office of the Legal Counsel, the Office of the Auditor, the Office of the Secretary-Treasurer and the Inspection Service. By law, the first two of these service units are virtually independent of the ACCFA, benign representatives of the Department of Justice and the Office of the Auditor General of the Philippines, respectively.

In the field, operations are undertaken through provincial offices staffed with a provincial director or officer-in-charge, an agriculturist, an accountant, an attorney, field men and clerical personnel who constitute a team which administers the credit and cooperative promotion activities of the Administration. These field units will soon be supervised and their activities coordinated by regional offices. The country has been divided into 7 regions, as authorized by Republic Act 821.

Under present plans, each region will be under a regional supervisor, who will be assisted by an agriculturist, an accountant, an attorney and an education and information officer. This regional scheme is being developed to decentralize and consolidate field operations, in order to minimize administrative problems inherent in a centralized pattern of administration.

The regular activities of the FaCoMa are supervised by an ACCFA field man. A certified public accountant periodically inspects the books and sees to it that accounts are properly handled and recorded. Legal requirements such as documents and notarization of loan papers are attended to by field attorneys attached to the provincial offices. At present the whole staff of the ACCFA is composed of 328 officials and employees of whom 183 are regularly in the field.

In addition to this administrative organization, there has been created recently a separate entity to assist in the marketing and procurement problems of the FaCoMas. This is the Central Cooperative Exchange, Inc. It is under a board of directors composed of 7 members and a president who manages the business. Until the FaCoMa stockholders are able to finance with their own resources the operation of the exchange, the AFFCA holds the majority of the stocks of the corporation and has 5 out of the 7 members of the board of directors. Two members have been elected by representatives of the FaCoMas.

An indispensable aspect of this program is the system of training of both ACCFA personnel and cooperative officials. For this purpose, periodic institutes are conducted in which applicants for positions in the ACCFA are screened and trained. During the last two years, two such training institutes were held and a civil service examination for the trainees in the second institute was given. From among those who passed the examination, the ACCFA has been recruiting men to fill new or vacated positions.

The respective organizational and operational structures of the ACCFA and the FaCoMas, as briefly outlined, have made it possible for the ACCFA to extend credit to nearly a hundred thousand individual farmers scattered in some

5,000 barrios. How the pattern works may be illustrated by the process under which loans are applied for and released to individual farmers.

A farmer files his application for a loan with his barrio loan committee which screens and processes the application. This stage insures security of the loan because the members of the loan committee are local farmers who know the circumstances of each member applicant. In this way, the possibility of frauds or of misappropriation of loans is reduced to the minimum.

From the barrio loan committee, the papers are forwarded to the FaCoMa board of directors which passes upon the individual applications and submits them, with its recommendation, to the ACCFA provincial office which, in turn, analyzes and approves or disapproves the applications in a preliminary manner. The papers are then submitted to the Loan Division of the ACCFA in Manila for review and final recommendation to the Board of Governors. Upon approval of an application, the proceeds are released through the same process in reverse.

The effectiveness and economy of this procedure and machinery of credit administration have been demonstrated by the fact that this year the per peso cost of administering the loans has been reduced from P0.80 last year to less than P0.04 this year. This cost can be further reduced as the FaCoMas perfect their organizational and administrative operations.

Social and Economic Implications

To the extent that the program of cooperative development and credit financing has been carried out in practical form, rural usury has been eliminated, healthy changes in the feudal relationships between landlord and tenant have been initiated, the farmer has come to know the meaning of credit in the business sense, capital has been infused into the rural communities, and the dynamics of organized action has been felt and experienced. In sum, a process of social regeneration has been set in motion.

In more specific terms, the farmers who comprise the major sector of the population have acquired and are acquiring the essential tools for efficient production. A hundred thousand of them have already established a source of credit to finance farm operations, including the acquisition of necessary aids like carabaos, agricultural implements, fertilizer, pest control materials and, through their FaCoMas, modern facilities such as warehouses, rice mills, threshers, tractors, trucks, etc. Thousands of them have changed their crop-sharing contracts with their landlords as a result of which they will start to get a bigger portion of the harvest. The means and the machinery have been laid—the chain of FaCoMas—to gain greater control of the distribution aspect of the economy at least insofar as their produce is concerned.

On the larger national scene, though perhaps still on a modest scale, the program has generated activity in many fields of business. There has been created an effective demand for goods and commodities, from daily necessities to farm machinery, construction materials, storage and processing facilities which the farmers could not have afforded to buy before. Thousands of farm hands who used

to be paid in kind, and only after harvest, got paid in kind for the first time these last two years. The 247 FaCoMas have on their regular payrolls more than 1,000 officials and employees. Many have been engaged by the FaCoMas in the construction of warehouses, offices, etc.

All these have undoubtedly generated business activity on a wider scope than can be clearly appreciated at this time. But with a fuller and more extensive implementation of the program, the chain reaction will be sufficiently strong for the entire social economy to feel the powerful impact of so many rural communities rising from dreary depths of age-old poverty to a higher level of productivity, income and purchasing power.

On quite another plane, the farmers are rapidly awakening to a new sense of hope and self-confidence. They are learning to get together, discuss common problems together, and assume responsibilities involving their group. In the true principles of cooperation, they elect their officers, are consulted on vital business and commercial problems, participate in FaCoMa activities, and share in the opportunities and hazards of group action.

In short, they are acquiring training and experience in the practice and discipline of genuine community life and democratic living. Out of the process may well be forged the moral, spiritual and material values by which rural development can be achieved on a sound and firm foundation.

THE MONETARY SITUATION IN INDONESIA

(From the annual report of the Bank Indonesia for the financial year of March 31, 1954 to April 1, 1955)

Introductory

The way in which the internal monetary situation developed in 1954 was very bad indeed. While on the one hand the inflationary forces—as there are in the first place the cash deficit of the Government and furthermore the credit granting of the banks—expanded, on the other hand the compensating influence emanating so strongly in the preceding years from the deficit on the balance of payments, waned considerably in 1954, mainly as a result of the import restrictions introduced in May last in view of the depleted gold and foreign exchange reserves. This in the end resulted in 1954 in increased internal creation of money with resultant increased effective demand, which was considerably greater than in 1953. Not only this primary inflationary effect, but also the secondary inflationary effect (the multiplier) must have gained in force, because as a result of the import restriction only a smaller proportion of the newly created spending power could find an outlet abroad, causing the remaining part to be concentrated more than before on the domestic market.

Though the real economic factors justifying an increased money supply, such as larger production and a growth in the number of business and family households, again showed some increase in 1954, it is evident that the expansion by no less than 46%, not to speak of the multiplier effect, which took place in the volume of money, was out of all proportion. As a matter of fact, this excessive creation of money led to increasing disequilibrium between spending power and supply of goods, having resulted inter alia in a considerable advance in prices and in cost of living, in greater tension between prices and wages and in increasing disparity between internal and external price levels.

The most important cause of this serious interference with internal monetary equilibrium, which in turn greatly contributed towards farther going interference with the material equilibrium in the balance of payments, was again the cash deficit of the Government, which was nearly Rp 500 million more in 1954 than in 1953 and totalled some Rp 3,500 million. When comparing this actual trend with the scheme outlined in the Financial Paper of 1952, aiming at restoring equilibrium in the monetary position and in the balance of payments in 1956 by gradually reducing the budget deficit on the one hand, and by controlled depletion of the foreign exchange reserves on the other hand, it is most obvious how far our country is still remote from these targets. Admittedly, the planned depletion of the foreign exchange reserves has wellnigh been materialised, but the aim thereby envisaged, viz. restoration in the direction of internal and external monetary equilibrium, has by no means been achieved; on the contrary: it seems to be remoter than ever. It is because the gold and foreign exchange reserves have meanwhile been reduced to a bare minimum, so that restoration of equilibrium can no longer be combined with further trenching upon them, that a situation has been created which will offer most serious impediments to such restoration. More than ever before, therefore, it is now an urgent necessity to weaken the effect of inflationary factors, which should primarily be brought about by reducing the cash deficit of the Government, while furthermore expansion of credit granting by banks—however small its inflationary effect may be relatively—should be curbed as much as possible.

It is very much to be regretted that these urgent problems were not paid any attention to in the Financial Paper of 1954 and that neither was a fiscal policy pursued in 1954 which actually led to the reduction of the aggregate demand bent on purchasing, either by reducing total Government expenditure, or by increasing Government revenue—at least in so far as increasable with the aid of internal measures. The measures which were actually taken in this sphere, comprising the increased prepayments to the Foreign Exchange Fund to be made by importers, have lost their deflationary effect, since the Government now regards these payments as additional revenue and they are, in fact, expended again; the direct controls, such as the planned trenching upon the foreign exchange reserves as such, the enforced restriction of imports and the controlled distribution of basic materials, the controlled prices and wages (the success of which, as a matter of course, depends on the degree of efficiency of the Government organisations) are, looked at from the monetary angle, merely means of combating symptoms. They do not in the long run constitute any positive contribution towards the necessary reduction of effective demand. Mitigation of the now prevailing stresses can only be achieved by reducing the total of expenditures.

The question may be asked whether such a reduction of the expenditures as required from a monetary point of view, would be compatible with an economic policy aiming at deliberately promoting the further economic development. For certain quarters, also in our country, are propagating these very Government deficits and/or this very expansion of credit granting by banks—a widening therefore of the effective demand—as the expedients to ensure expansion of production. These expedients, which are in times of depression (with lack of demand owing to too small a spending power) doubtless recommendable in some fully developed industrial countries (with production plants lying idle and skilled labour being unemployed), cannot however in my opinion bring about any positive result under the circumstances in which Indonesia finds itself. There is in our country no idle industrial capacity on account of inadequate purchasing power, no unemployment of skilled labour; there is on the contrary considerable shortage of these real resources and of good entrepreneurs, despite the fact that for years on end there has been relatively too great a spending power. Experience of the last few years of inflation has clearly demonstrated that excessive creation of purchasing power has not caused the real resources to be used to better advantage. Only mining (oil) and food industry have exhibited a fairly large production expansion, which however can decidedly not be attributed to any turning the inflation to advantage.

On the other hand, the too great creation of money, as a result of impeded exportation and increased urge for importation, did lead to the creation of a new bottleneck for further economic development, viz. a shortage of spendable gold and foreign exchange reserves. A policy aiming at restoration of internal and external monetary equilibrium, and a policy pursuing the object of promoting economic development, need not in the present Indonesia be in conflict with each other; on the contrary continued excessive creation of money will to a considerable extent be impedimental to the materialisation of the two objects.

It is only natural that owing to the existing discrepancy between total expenditures and available supply of goods not only the use of real resources to better advantage, but also the transfer thereof from the private to the Government sector is being seriously thwarted. The continued existence of a fair-sized Government cash deficit and the non-pursuance of a fiscal policy aiming at restricting the aggregate purchasing power, intensifies the "competition" between private entrepreneurs and the Government in respect of gaining control of the—relatively small—available quantity of real resources. This entails a constant increase in the price of these real resources (capital goods, raw materials and labour). Besides to the resultant aggravation of the balance of payments difficulties, this leads to the necessity for the Government to spend increasingly large amounts for the financing of a given (development) programme.

In this connection it must furthermore be noted that there has been no feature in the Government policy as yet aiming at accelerating economic development. The increased deficit of the Government budgets in 1954 can decidedly not be identified with a deliberate deficit-financing policy, but is rather the result of inadequate control of the levels of total expenditure and total revenue.

First and foremost, every effort is to be made to curb the inflationary factors, since the near future is causing very great concern in monetary respect. Any expansion of total outlays, either in the Government or in the private sector, interfering further with the equilibrium to the value of the volume of goods and services becoming available in the same period of time, even though they are investment expenditure, should be avoided. Only increased investment expenditure attended with reduced consumptive spendings can be deemed justified.

The necessity of a decrease of the cash deficit in 1955 is evident. Maintenance of the cash deficit at the same level as in 1954 would, with a view to the expectable abatement of the deflationary counterforces, in all probability generate still greater inflationary effects, both primary and secondary. It is to be hoped that the policy pursued by the Government in 1955 will more than in 1954 be focussed on curbing the causes of inflationary stresses.

As it is to be expected that also in the years to come the greater part of the Government cash deficit will have to be financed out of advances raised from the Bank Indonesia, it might be useful in this connection to draw attention to article 19 (2) of the Bank Indonesia Act 1953, providing that the total advances to the Government shall not exceed

the limit of 30% of Treasury revenues in the budget year preceding the year in which the advances are applied for.

Differences in opinion as to what is to be understood by "revenues of the Treasury", of which concept the law does not give a more precise definition, have made it difficult for this article to be strictly adhered to; nevertheless it was established in the course of 1954 that even when applying a strongly watered-down concept of revenues, the above limit would be exceeded which would make it a statutory necessity to ask for Parliament's sanction to increase this limit. This increase, to an amount of Rp 2,500 million—based on a first estimate of the budget deficit for 1955—has meanwhile been submitted for approval, bringing the maximum to Rp 7,100 million as at the end of 1955. Although it is doubtful whether this increased limit will prove sufficient, in my view a fixed limit is in any case to be preferred over a variable one.

It may be recalled to memory that legislators incorporated the article in question in the Bank's charter because of the non-existence of sufficient safeguards against arbitrary actions on the part of the Government in the sphere of public expenditure. Though it must be stated that the incorporation of this regulation has been of no avail to prevent the Government appeals to the central bank from going on unabatingly, yet this fact must not lead to the conclusion that it should thus have lost its value. For by (yearly) fixing a set limit, Parliament can, despite the too late arrival of the budget, exercise control on public expenditure.

The reduction of the Government deficit, now so absolutely necessary, will of course to an appreciable extent only be achievable by Government measures. Normally such a reduction is being laid down in the budget. But if, as in our country, the presentation of the budget and the discussions of this budget in Parliament are seriously delayed, the restrictive nature of the budget is of no avail. On the other hand, the first thing the now proposed increase by Rp 2,500 million of the limit referred to above for advances to the Government in 1955 calls for is the sanction of Parliament, so that it may be expected that when discussing this matter the monetary policy of the Government will be subjected to a closer study. The fixed increase by Rp 2,500 million will moreover constitute a test case for the question as to how far the Government in full earnest intends to actually continue the total deficit for 1955 to this figure.

Monetary balance sheet

The monetary balance sheet—which is compiled on the basis of the consolidated balance sheet of the Bank Indo-

TABLE 1—MONETARY BALANCE SHEET
(as at December 31; Rp million)

	1952	1953	1954		1952	1953	1954
Currency issued by the Government (less bank note balances with Government pay-offices)	255	340	480	Currency in circulation:			
Advances of Bank Indonesia to the Government	4,730	5,309	8,472	a) bank notes	4,209	5,030	7,270
Treasury notes and bills with banks	63	114	153	b) Government notes	320	367	470
Domestic, non-Government credits granted by banks	2,445	2,394	2,826	c) coin	106	133	156
Gold and foreign exchange holdings	1,799	2,025	1,758	minus			
Sundry items	481	416	759	Cash balances with:			
				a) banks	—115	—152	—208
				b) Government	—171	—160	—146
	9,773	10,598	14,448		4,349	5,218	7,542
				Demand deposits:			
				Domestic creditors	2,255	2,269	3,419
				Money supply	6,604	7,487	10,961
				Non-monetary liabilities of banks	3,169	3,111	3,487
					9,773	10,598	14,448

nesia, the Bank Negara Indonesia, the Bank Industri Negara and seven non-Indonesian foreign exchange banks operating in this country as well as on the basis of the data supplied by the Government regarding the volume of money brought into circulation by or on behalf of the Government—in its present compilation, does not pretend to be complete, for completeness could only be claimed when also the balance sheet figures of the other money-creating organisations established here, comprising the Bank Rakjat Indonesia and the private banks, were included. However, since these balance sheet data are either not at all or only on a limited scale, and often with considerable delay, produced and moreover quantitatively of relatively small importance, it has so far been necessary, for practical reasons, to abstain from incorporating them. This is illustrated by the consolidated quarterly figures of some twenty national private banks, showing that the creditor figures (inclusive of bills payable) as at the end of December 1954 did not make up more than about 6% of the sum of the demand liabilities of the ten banks referred to in the monetary balance sheet.

As appears from table 1, the composition of the monetary balance sheet in the present report differs to some extent from the one given in previous annual reports in that the so-called *rumi* (blocked rupiah accounts of non-residents) balances of individuals and banks, together forming the item foreign creditors, no longer appear under demand deposits. This was done while the balances in question, considering the foreign exchange regulations now in force, are virtually no demand liabilities, i.e. are no free deposits subject to check, and cannot consequently be regarded as money according to the generally accepted definition of money. The *rumi* balances have now been included in the item non-monetary liabilities of banks. So as to make the volume of money put into circulation in 1954 and preceding years comparable, the necessary alterations have also been made in table 2; omitting these corrections would have given an incorrect (coloured) picture of the movements which took place in 1954 in the money supply.

For greater clarity it should be mentioned that the item currency issued by the Government, appearing on the debtor side of the balance sheet, represents the amount of notes and coin issued by the Government minus the bank note balances in Government hands; a similar procedure was adopted in preceding years.

The monetary trend during 1954 may be pictured as follows. The money circulation has constantly risen as from the end of 1953. A striking feature is that the rate of this rise showed an increasingly stronger upward tendency in each consecutive quarter of the year. In total the increase amounted to Rp 3,474 million or over 46% of the money supply at the beginning of the year (in 1953 Rp 882 million, equalling about 13%).

Of the factors causing the expansion of the money supply the first to be mentioned is the budget deficit, since it was this very factor that to a considerable extent contributed towards the creation of money. The Government's inflationary cash deficit in 1954 totalled Rp 3,342 million (Rp 2,452 million in 1953). This cash deficit was financed (1) by increase of the Government debt to the Bank Indonesia by Rp 3,162 million—this increase was especially high in the second quarter, also as a result of more extensive budget expenditure—, (2) by issue of treasury notes and bills with banks to a sum of Rp 39 million and (3) by increased supply (Rp 141 million) of Government notes and coin. It must be noted that the compulsory prepayments, to be made by importers, rose by Rp 143 million in 1954—in this connection attention may be drawn *inter alia* to the enhancement fixed for these prepayments as on July 12th, 1954—which cash receipts naturally caused a corresponding reduction of the inflationary cash deficit of the Government.

Taking into account that the Government's net outlays abroad have totalled Rp 775 million, up to which value the inflationary effect was neutralised, the direct internal inflationary effect of public finance has amounted to Rp 2,567 million.

Increase in the volume of money also occurred in 1954 by extension of the credits advanced to semi-Government institutions, comprising the Jajasan Urusan Bahan Makanan, the Jajasan Kopra and the Jajasan Kredit, and to private enterprise, by Rp 433 million in all (in 1953 a credit contraction of Rp 50 million). As to Rp 160 million the said increase was due to credit expansion in the semi-Government sphere owing to rice imports in the first quarter of 1954. In the purely private sector the amount of credit outstanding showed a rise of Rp 273 million, which rise is however chiefly to be associated with the price increases presenting themselves in the fourth quarter for the commodities intended for export and home trade and the difficulties in transporting these articles (floods, etc.), owing to which it was frequently necessary to hold larger stocks.

The gold and foreign exchange reserves were down by Rp 269 million during 1954, which decline exerted a deflationary effect. Against the preceding year, when the decrease in the gold and foreign exchange holdings totalled Rp 1,560 million, this deflationary effect is considerably smaller which is mainly due to the drastic import restrictions introduced in the third and fourth quarters on the one hand and the improved terms of trade on the other. A closer study of the movements in the gold and foreign exchange reserves in the course of 1954 shows that the Bank Indonesia's gold holdings (inclusive of the balances in convertible foreign exchange and the claim on the Government on account of gold deposited on its behalf with I.M.F. and I.B.R.D.) suffered an overall decline of Rp 596 million. In this connection attention must be drawn to the fact that in the third quarter the Government raised a sum of U.S.\$15 million from the International Monetary Fund within the scope of the so-called gold tranche, which sum was removed from the item gold holdings and added to the assets of the Foreign Exchange Fund. This is one of the factors which made it possible for the ready foreign exchange position of the Foreign Exchange Fund to improve to the extent of a total of Rp 608 million. The item foreign bills and bank balances showed a decrease of Rp 281 million. Considering the Government spendings abroad of Rp 775 million, referred to in the foregoing, it may be stated that there was actually an increase by Rp 506 million of the foreign exchange reserves in the semi-Government and private sectors, which was being attended with a rise in the money supply.

Among the other factors having influenced the volume of money are, in conclusion, to be mentioned the miscellaneous causes which item is composed of the non-monetary liabilities of banks. On the one hand, there were deflationary movements owing to increases of the items E.C.A., I.M.F. and I.B.R.D.-accounts, capital and reserves of banks and time deposits by Rp 218, Rp 75 and Rp 9 million respectively, while on the other hand inflationary tendencies resulted from the decreases of the items: margin deposits with banks, Government claims on the Foreign Exchange Fund, foreign creditors (*rumi*s) and sundry accounts by Rp 79, Rp 32, Rp 32 and Rp 127 million respectively. Thus, when considering the overall effect of the miscellaneous causes, the conclusion is reached at that this item generated a deflationary effect to the extent of Rp 32 million.

It may be inferred that inflationary influences still predominate over deflationary effects. A comparison of the monetary trends in the years 1954 and 1953 even shows that in 1954 the inflationary tendencies were considerably stronger than in the preceding year. This must primarily

be attributed to the strongly increased creation of money on behalf of the Government, while also the credit granting to the private sector was appreciably extended. On the other hand, deflationary factors were less active, which found expression besides in a smaller decrease of the gold and foreign exchange reserves in an increase of the non-monetary liabilities of banks.

As far as their influence on the economic developments is concerned, the predominantly inflationary forces clearly manifested themselves in an upward pressure on the price level, such as a result of the discrepancy between total effective demand for goods and supply of goods.

Money supply

Table 2 illustrates that the increase in the total money supply was approximately Rp 3,474 million in 1954, against Rp 882 million in the preceding year. Whereas in 1953 the increase in the volume of money had been practically confined to the currency sphere, in 1954 both currency in circulation and deposits increased in volume to an approximately equal extent, viz. by 45 and 50% respectively. As at the end of 1954 the aggregate money supply was composed of 68.8% currency and 31.2% deposits; the corresponding figures in 1953 were 69.7 and 30.3%.

TABLE 2—MONEY SUPPLY IN INDONESIA
(Rp million)

End of	Currency	Deposits	Total	%	%
			money	currency	deposits
1938 March (estimated)	240.0	180.0	420.0	57.1	42.9
1950 December	2,581.6	1,726.3	4,307.9	59.9	40.1
1951 December	3,328.1	1,705.8	5,033.9	66.1	33.9
1952 December	4,349.2	2,254.6	6,603.8	65.9	34.1
1953 December	5,217.7	2,268.8	7,486.5	69.7	30.3
1954 January	5,256.8	2,396.1	7,652.9	68.7	31.3
December	7,542.3	3,418.9	10,961.2	68.8	31.2

A closer study of the component parts of the money supply shows that in the first quarter of 1954 currency in circulation underwent only a relatively slight increase, not to be considered abnormal. But in the months April and May a considerably larger increase could be recorded. As in previous years, this is to be ascribed to payments of Lebaran bonuses and the buying-up of paddy by the Government. A fairly regular increase by on an average Rp 180 million per month took place in the period July through November. The strong rise in December, finally, is accounted for by the comparatively large dispositions of Government institutions, usually taking place by the end of the year, and by the extension of credit facilities in the private sector.

The trend of movements in the sphere of deposits was rather irregular in the period January-March. A similar tendency was displayed in the second quarter; the increase in deposits by over Rp 300 million in June was most probably largely due to the restricted issue of import licenses, causing large repayments to be made to importers of their prepayments effected at an earlier date in favour of the Foreign Exchange Fund. A wellnigh similar explanation can be given for the rise in July. The increase in deposits during the period August-September and, though to a lesser extent, in the last quarter of 1954, is most likely also to be seen in the light of the import restricting measures of the Government. For it was these measures which caused depletion of stocks in certain sectors of private enterprise along with an accumulation of funds, which resulted in an increase of the current account with banks.

THE AMMONIUM SULFATE INDUSTRY OF JAPAN

Return of Economic Control

In the midst of the striking postwar development of organic chemical industry, the chemical fertilizer industry ranks first, accounting for 40 per cent of the total chemical industry output including both organic and inorganic categories. The ammonium sulphate industry is the nucleus of the chemical fertilizer enterprise.

When the postwar course of the ammonium sulfate industry is observed, it is seen that the annual production capacity immediately subsequent to the surrender (1945) dropped to 183,000 tons, less than 10 per cent of the pre-war peak. This was almost a death blow.

In 1950, production capacity recovered to 1,863,000 tons, thanks to the protective policy of the Government in connection with increased foodstuff production planning, and the economic control extending over a period of 10 years was terminated together with the abolition of the Fertilizer Distribution Public Corporation.

However, ammonium sulfate prices rose due to the upswing of raw material prices after the Korean War. On the other hand, (a) a strong demand rose for the reduction of the price of fertilizer—which occupies 30 per cent of the agricultural production cost; (b) it was considered necessary to give priority to the ensuring of domestic supply; (c) a great need was felt for cultivating competitive power based on cost-reduction to cope with the obstruction of Japanese trade advance into Southeast Asia resulting from the forced export to this area of Western ammonium sulfate during the latter half of 1952.

Consequently, the Emergency Fertilizer Supply And Demand Stabilization Law and the Law For Ammonium Sulfate Industrial Rationalization And Export Adjustment Emergency Measures were enacted in May, 1954, after a deliberation of about 12 months.

In August of the same year saw the initiation of a series of measures such as the programme for the readjustment of the supply and demand of ammonium sulfate group of fertilizers (fixing of export volume) and the setting of the ceiling on sales price for producers for the sake of stabilization of prices.

In Japan where free economy is the rule, fertilizer is one of the very few commodities under economic control. Be that as it may, the control of fertilizer is an emergency action to ensure adequate supply for domestic consumption. It is generally held that the control will naturally be liquidated when the price level drops and supply and demand situation show improvement subsequent to the attainment of rationalization objectives five years hence.

Trend of Production Capacity of Ammonium Sulfate

Year	Group of Fertilizer (Unit: 1,000 tons)		Total
	Electrolysis Process	Gas Process	
1943, Apr. (prewar peak)	429	1,460	1,889
1945, Aug. (end of war)	44	139	183
1946, Apr.	152	359	511
1947, Apr.	348	741	1,089
1948, Apr.	470	855	1,325
1949, Apr.	531	1,112	1,643
1950, Apr.	616	1,247	1,863
1951, Apr.	736	1,654	2,390
1952, Apr.	768	1,894	2,662
1953, Apr.	763	2,128	2,891
1954, Apr.	768	2,260	3,028
1955, Apr.	770	2,340	3,110

Note: Ammonium Sulfate Group includes in addition to ammonium sulfate the following: urea, ammonium nitrate, ammonium chloride, ammonium sulfo-phosphate group compound fertilizer and ammonium phospho-nitrate group compound fertilizer.

Supply and Demand Programme

The Fertilizer Inquiry Council was established for deciding the supply-demand programme and other important items connected with fertilizer control, giving adequate consideration to the rights and interests of circles concerned and to avoid arbitrary bureaucratic decisions. The council was composed of producer representatives (up to 3), sales agency representatives (up to 2), consumer representatives (up to 3) and men of learning and experience (up to 7). The organ not only deliberates on important problems but also makes recommendations to the Government. In the case of natural disasters, the custodian organs (the Federa-

tion of National Cooperative Agricultural Associations is the only one now so designated), under Government instruction, take charge of the purchase, storage, and distribution of ammonium sulfate group of fertilizers.

The 1954 fertilizer year (begins in August and ends with July of the following year) supply and demand programme was designed only in connection with the ammonium sulfate group of fertilizers. According to it, priority was given to meeting the estimated domestic demand of 1,780,000 tons and domestic demand adjustment storage volume of 175,000 tons from the sum of the estimated production volume and the amount carried over from the previous term totalling 2,494,000 tons. Of the balance, 470,000 tons were earmarked for export purposes with due consideration given to guaranteeing that the next year's domestic demand could be met.

The actual result in comparison with the programme was as follows: The amount carried over from the previous year was 106,000 tons, 12,000 tons more than the initial estimate; production is expected to exceed the programme figure by 120,000 tons; and the total supply volume to be greater by 130,000 tons than planned. And, domestic demand also is forecast to be 120,000 to 130,000 tons more than the programme estimate.

The purchase of the domestic demand adjustment storage volume was held down to 123,000 tons (programme estimate 175,000 tons). Of this total, 91,000 tons have already been released to meet domestic needs.

Consequently, there is a strong voice urging the increase of the projected export volume of 470,000 tons by additional 40,000 to 80,000 tons, allotting for this purpose the surplus supply accruing from domestic demand and adjustment storage volume. It is expected that this problem will be decided in accordance with the deliberation of the Fertilizer Inquiry Council.

The programme for the 1955 fertilizer year is now under examination. It is generally forecast that the production volume will be increased to the neighborhood of 2,700,000 tons and the expected export volume will be around 600,000 tons.

Ceiling Sales Price for Ammonium Sulfate

One of the main objectives of ammonium sulfate control is the establishment of the producer ceiling sales price for domestic consumption. The maximum price is based on the producer price which includes raw material cost, processing cost, amortization, interest rate, general administrative charges, sales expense, reasonable profit, etc., calculated for each individual manufacturer, and a weighted average price obtained through addition from the lowest bracket until the sum volume of the domestic consumption volume and the domestic demand adjustment storage volume is reached.

According to the above method of calculation, the basic price per 37.5 kilogram bale for 1954 fertilizer year became Y822 (Y21,919 per ton) and allowances within Y10 for each month above or below the basic price are permitted in due consideration of seasonal factors. Consequently, marginal manufacturers whose prices were above the basic level confronted the necessity of reducing production cost through rationalization.

After December, 1954, the price per bale was upped Y3.60 (per ton, Y96) due to the upswing of electric power rates. In February, 1955, the price was revised downward Y5.00-Y7.00 per bale (Y133-Y187 per ton) in consideration of the spreading depression in agricultural communities and reduced production cost resulting from higher operation rate of manufacturers.

The ceiling price for the 1955 fertilizer year is expected to be determined in the near future. There is a strong probability that the price will be reduced by 2 to 3 per cent in anticipation of cost reduction due to increased output and progress of rationalization.

Japan Ammonium Sulfate Export Co., Ltd. and Export Situation

The export of ammonium sulfate is either handled directly by the Japan Ammonium Sulfate Export Co., Ltd. or indirectly through the sale of export fertilizer to the trading firms. The Japan Ammonium Sulfate Export Co., Ltd. was established according to the Ammonium Sulfate Industry Rationalization Law and its term of existence is stipulated to be from August, 1954, to July, 1959. The company is financed by Y100-million paid in by 14 manufacturing companies. It receives no financial support from the state. The profit and loss resulting from the export trade is left to the self-initiated disposition of the company, that is, the ammonium sulfate manufacturers who are the stockholders. It does not enjoy the benefits of state compensation. Thus, in this respect, the company is an outright commercial enterprise. And, the adjustment of export is the objective of such unification of the export system. No special measures, such as the simplification of export procedure, preferential application of the Taxation Law, and other export promotion steps, have been adopted.

During the second half of 1952, the forced export of Western ammonium sulphate to Southeast Asia was witnessed due to abnormal accumulation of nitrogenous fertilizer stocks on a world scale, aided by the sharp break of ocean freight rates, this bringing heavy pressure to bear upon Japan's exports to the above area. With the coming of 1953, the export competition was eased due to rising European fertilizer demand and the upswing of demand in underdeveloped countries. The export volume for the 1953 fertilizer year reached 450,000 tons (the shipment of additional 37,000 tons were carried over to the next term), the figure being twice the initial forecast. The export price also rose to \$57.46 per ton, F.O.B., well above the previous year's level of \$55.73.

When the Japan Ammonium Sulfate Export Co., Ltd. was inaugurated in the 1954 fertilizer year, inquiries (demand) from Southeast Asian countries happened to become active due to international shortage of supply, and the firmness of ocean freight rates turned Japanese standing relatively advantageous towards this market. It is forecast that each category of the total of 470,000 tons of ammonium sulfate group earmarked for export, will use up the export quota, namely—439,000 tons of ammonium sulfate (270,000 tons to Formosa, 93,000 tons to Republic of Korea, 72,000 tons to Red China, 4,000 tons to Ryukyus and other destinations); 22,000 tons of urea; 8,000 tons of ammonium chloride; 1,000 tons of compound fertilizer such as ammonium sulfo-phosphate. The export of from 40,000 to 80,000 tons additionally is further expected. With the exception of Formosa, the average price is forecast to be over \$60.00 per ton, F.O.B.

The estimated 1955 fertilizer year ammonium sulfate export volume is 500,000 tons (ammonium sulfate group, 600,000 tons). On the other hand, it does not necessarily follow that blind optimism is warranted because of such circumstances as (a) the rapid upswing of world production and (b) the failure of Japan and the United States to come to terms on the question of price in their export contract talks with India regarding its long term purchase plan (1955-57—200,000 tons annually for three years).

Five-Year Ammonium Sulfate Rationalization Programme

The production capacity of ammonium sulfate industry has recovered as outlined above. However, there are com-

panies that are still using obsolete facilities because of their headlong rush for production increase. It cannot be denied that rationalization is still behind schedule even among those that have been rehabilitated and newly expanded. The elevation of efficiency based on the adoption of most modern equipment and machinery and production system is now being planned because the high price of basic materials such as coal and electric power is the reason for comparatively high production cost in this industry. In other words, the formula calls for the elimination of unnecessary expense and the fullest utilization of valuable raw materials through the installation of pulverized coal gasification equipment, adoption of heavy oil gasification process, economizing of steam, switchover of products (urea, ammonium sulfo-phosphate), use of chain system calcinating furnace, installation of automatic control devices, improvement of electric furnace, etc.

The projected goal is the increasing of actual production capacity by 885,000 tons and the reduction of production cost by Y2,633 per ton. The grand total of funds for improvement in facilities is Y37,900-million. Of this total, Y22,700-million is for constructions partially dependent on state funds. However, the bulk of this total is to come from increase of capital, company reserves, and ordinary commercial borrowings, the proportion of state funds being considered to be about 30 per cent of the total. State funds will come from the funds of the Development Bank of Japan, operated by Government financing. The fund available will be decided each year, considering the circumstances existing at the time. The forecast for 1955-56 only calls for Y710-million for 1953-54 fiscal year, Y1,100-million for 1954-55, and Y1,500-million for 1955-56, but the grand total for the five-year period is not yet decided.

Conclusion

Special circumstances of economic control of ammonium sulfate industry have been explained in the above paragraphs. The general situation is progressing smoothly due to the recovery of exports based on the revival of international market situation with 1952 as the bottom, increased ocean freight rates, and the beneficial effects of production rationalization, parallel with the satisfactory tone of domestic demand.

In connection with the long term prospect of export, the following facts cannot be ignored; namely, the world is increasing its nitrogenous fertilizer export capacity; ammonium sulfate production facilities of Southeast Asian nations are on the road to completion; and countries like the United States and Canada, which considered byproduct ammonium sulfate as the only reserve export source in the past, are reported to have started production as a primary export item with the completion of new synthetic fertilizer plants. But it is said that there exists an import demand for nitrogenous fertilizer in the Asian area estimated to amount to 2-million tons annually which is not covered by its domestic production.

For Japanese economy, highly dependent on imports, great expectation is placed on the export expansion of the ammonium sulfate industry—which depends only on domestic raw materials and whose export turns 100 per cent into foreign currency—and, there is a strong demand for the building up of international competitive power based on increased export capacity and on the acceleration of plant rationalization.

GRAIN RATIONING IN CHINA

For an agricultural country like China, it is only when food is barely enough for its population—whatever the cause of this shortage—that rationing of grain has to be introduced. This was true during the Japanese occupation. It is true now under Communist rule. According to a Peking report, the population which does not produce grain or in insufficient quantities has already reached 200 million. This number will grow with China's growing industrialization. There is a big section of the population which does not produce grain—the cotton and other industrial crop growers, livestock breeders, fisherfolk, boatmen, salt producers and others. And on top of these are the millions of grain producers who still have to call on the state to help them out each year because of local conditions and natural calamities.

The grain rationing system to be introduced in all towns and industrial and mining centres before the end of November specifies that where wheat flour is the staple food, light physical workers will get 35 catties of flour each month (one catty equals half a kilogram); those engage in heavy physical labour 44 catties; and particularly heavy physical workers 55 catties. Office employees, teachers and shop assistants will get 31 catties; college and middle school students 35 catties; and residents in general 26.5 catties. Children under ten are classified into three categories according to their age. The ration for rice is slightly smaller; for other cereals, the same as for wheat flour. In the rural areas between 80 per cent and 90 per cent of the surplus will be bought by the state. On the other hand those with a grain deficiency will be supplied by the state with flour or rice.

Peking recently claimed that China's annual grain output of over 165 million tons is 50 per cent more than in 1949. The per head average today works out at 280 kilograms a year. This comes to about 80 catties per head per month which far exceeds the highest ration of 55 catties per month. However, China has to export large quantities of rice to Ceylon and other countries in Southeast Asia in exchange for rubber and other raw materials. Rice is being sent to Hongkong to earn whatever small amount of foreign exchange for the purchase of industrial supplies. It is also known that large quantities of staple food are being shipped to Russia. If China is to develop her industries according to the 5-year plan, she has to export more agricultural products such as oil seeds and other staples in addition to grains in exchange for industrial equipment and supplies.

Can China produce more grain and other agricultural exports? The People's Daily in Peking admitted that the grain output is still very low and the increase in output is slow. China's agriculture is still very backward. Any natural calamity or unforeseen obstacles would further upset the 5-year programs as the flood and other disaster did during the past two years. It is therefore not surprising that Peking should enforce grain rationing to cope with the serious shortage. Peking has also ordered all non-productive city dwellers, especially those who had recently migrated from farming districts, to disperse to farms and help the country to produce more grain. To encourage the cultivation of wasteland, Peking announced that output gained from the opening up of wasteland would, for three years, not be taken into account in calculating the surplus available for state purchase. Meanwhile, before China can produce more, people in China must eat less and work harder.

CHINA'S YELLOW RIVER PROJECT

The project for the control of the Yellow River floods and the utilization of the river's resources was presented by Vice-Premier Teng Tzu-hui in his report to the National People's Congress held recently in Peking. The Yellow River is the second greatest river in China. It originates at Yokuchunglieh Stream in Chinghai and flows through Chinghai, Kansu (including the former Ningsia Province), Inner Mongolia, Shensi, Shansi, Honan and Shantung, emptying into the sea at a point east of Litsing, Shantung Province. Its total length is 4,845 kilometres. The drainage basin of the Yellow River totals 745,000 square kilometres. Buried under the Yellow River Basin are rich deposits of coal, petroleum, iron ore, copper, aluminium and other minerals. According to hydrological data the average amount of water of the Yellow River over a period of many years is approximately 47,000 million cubic metres. If utilised to the fullest extent, it can expand the irrigation area to 7,733,000 hectares. The report claimed that in this irrigated area, grain output will increase by 6,850 million kilogrammes, and cotton by 600 million kilogrammes. As the source of the river is 4,368 metres above sea level, the hydraulic power obtainable along the river is sufficient to provide an annual output of 110,000 million K. W. H. of electricity.

However, Mr. Teng admitted that at the present the Yellow River could not make such great contributions and that the present irrigated area on banks of the river totalled only 1,100,000 hectares. The Yellow River has many tributaries in Shensi Province. In summer, when heavy rainfalls occur over comparatively wide areas, several tributaries may swell at the same time, causing extraordinarily high water. Most of the floods were the result of such heavy summer rainfalls. High water is also sometimes caused by heavy rain in September and October. In March and April, melted snow often results in high water. The seriousness of floods in the Yellow River is further accentuated by the silt deposition in the lower reaches. The average yearly amount of silt carried by the Yellow River from Shanhhsien County to its lower reaches and the sea totals 1,380 million tons, or about 920 million cubic metres. If this amount of silt were used to build a wall one metre in width and height, it would be long enough to run around the equator 23 times! In the lower reaches of the river where the slope becomes gentler the silt settles in large quantities and the river bed rises higher and higher till the muddy water floods over the dykes. Furthermore, the heavy deposits at the estuary of the river also extend from year to year, which not only makes this part of the river change its course frequently, but aggravates the situation of its entire lower reaches. During the past 3,000 years, inundation and dyke breaches occurred on more than 1,500 occasions in the lower reaches and there were 26 important changes of the course of the river. In one of these changes, the course moved as far north as the Haiho River, flowing into the sea at Takukou; and at another time it went as far south as the Huai River, emptying into the Yangtze.

In the past nine years, the Government has repaired 1,800 kilometres of dykes of the Yellow River involving 130,000,000 cubic metres of earthwork and 2.3 million cubic metres of stone. Because the course of the river in Shantung is narrow and incapable of discharging a large flow of water, the Government has built a "flood retarding area" on both flanks of the Tungping Lake in Shantung to divert the flow. The Government also has built a bigger flood-retarding area between the main Yellow River dyke from Changyuan in Honan Province to Showchang in Shantung Province and the chain dyke to the north of the main dyke. This flood-retarding area can temporarily divert the flow by 5,000 cubic metres per second. A fuse plug to control this flood-retarding area was constructed at its entrance at

Shihtowchwang in Changyuan. In order to alleviate the menace of ice flood, a fuse plug to prevent flood caused by the thawing of ice floes was built at Hsiaochiehtzu in Litsing, Shantung Province, while in the ice-jam season methods of hammering, exploding, shelling and bombing are used to break up the ice floes. However, Mr. Teng warned that the scourge of the Yellow River has not yet been eliminated. He then outlined the following way for the harnessing of the Yellow River: to build a series of dams and reservoirs on the main course and tributaries for detaining flood-water and silt, for irrigation and water communication, and for constructing a series of hydroelectric power stations; and to carry out water and soil conservation work in Kansu, Shensi and Shansi thus preserving water and soil in the middle reaches on the one hand, and rooting out the cause for the flood menace in the lower reaches on the other.

The plan for the harnessing of the Yellow River will take decades to complete. The middle reaches of the river from the Lungyang Gorge above Kweiteh in Chinghai to Taohuayu at Chengkao in Honan will be divided into four sections. The first section stretches from Lungyang Gorge to Chingtung Gorge in Chinchin, Kansu. This section of the river runs between mountains and hills. The slope of the river bed here is very sharp. Therefore, it is necessary to stress the use of water for power generation. At the same time, reservoirs can be used for flood control and irrigation. The second section runs from Chingtung Gorge to Hokowchen in the Autonomous Region of Inner Mongolia. Along both banks of this section of the river are valley plains, with fertile soil but lacking in rain water. The river is wide here and the slope of its bed gentle and suitable for navigation. Therefore, the main task here is to develop irrigation and navigation. The third section stretches from Hokowchen to Yumenkow in Hotsin, Shansi Province. This section of the river enters into the gorges between Shansi and Shensi. The slope of the river bed is very sharp but, owing to geological and geographical conditions, large dams and reservoirs cannot be built there. Hydro-power generation can be made possible only after completion of big reservoirs for regulating the river flow on the upper reaches. The fourth section stretches from Yumenkow to Taohuayu. The stretch between Yumenkow and Shanhhsien is broad. The gorge area from Shanhhsien to Mengtsing is the key section for the control of flood water in the lower reaches. It is also close to the industrial areas in Shansi, Honan and Shensi, thus the main task for this stretch is flood control and power generation. From Mengtsing down, the two flanks of the river are plains, in the main, and the slope of the river bed is gentle and dams can be built to irrigate the important agricultural areas nearby. 44 dams will be built in these four sections. In addition, 2 dams will be built in the lower reaches for irrigation. There will be 46 dams altogether.

Sanmen Gorge in Shanhhsien will be the site for the construction of the largest and most important project for flood-control, power generation and irrigation. The plan boasted that the dam will be about 90 metres high and can retain the river water to an elevation of 350 metres above sea level. This reservoir will have a capacity to retain 36,000 million cubic metres of water. Large water conservancy projects will also be built at the Lungyang Gorge and Chishih Gorge in Chinghai; and Liukia Gorge and Heishan Gorge in Kansu. The Liukia Gorge Reservoir will have a capacity of 4,900 million cubic metres. According to the report, following changes will take place after the completion of the series of dams on the main course and tributaries of the Yellow River: (1) The calamities of the Yellow River floods can be completely avoided; (2) The 46 dams will provide a capacity of 23 million kilowatts, with an average annual output of 110,000 million K.W.H.

of electricity; (3) The projects at Lungyang Gorge, Liukia Gorge, Heisan Gorge and Sanmen Gorge can irrigate 7,733,000 hectares of land; (4) A 500-ton tugboat will be able to sail from the estuary of the Yellow River to Lanchow.

To preserve water and soil in the Yellow River basin, the project includes following measures:

Agrotechnical Measures

1. To improve farming technique—to enable the soil to absorb more rain water, deep ploughing should be practised and also loosening the soil in between rows of vegetation immediately after rainfall; in order to improve the soil structure, more fertiliser should be used and crop rotation carried out; and so on.
2. To adopt farming methods capable of conserving water and soil—to prevent rain water from rushing down the sloping land, crops should be planted in the contour furrows.
3. To improve the top soil by close-planting, inter-strip contour farming, laying out buffer grass below growing green manure crops in summer fallow land, practising grass and crop rotation, growing fodder grasses, controlling livestock grazing on pasture lands, and so on.

Agricultural Measures

1. To undertake engineering work for farmland—fields on sloping land should be terraced, borders erected on cultivated sloping land, ditches and borders dug on contour lines, systems of water collecting and draining ditches laid out, "storage ponds" constructed, and so on.
2. To use steep slopes for planting trees and grass.

Forestation Measures

1. To plant trees at the bottom and sloping parts of gullies, on river banks and beaches, on reservoir banks and in alkaline land.
2. To lay out windbreaks to stabilise shifting sand and protect farmland.
3. To close off afforested hills for natural propagation and afforest sloping land and hilly regions.

Water Conservation Measures

1. To build borders at the heads of gullies or along their sides to prevent their expansion.
2. To build across gullies check dams, silt-deposition dams and huge earth dams.
3. To improve land by silt-deposition (to lead silt-containing water into sectors of land encircled by dykes and drain the water away after the silt settles down).
4. To develop small irrigation projects.

5. To build storage ponds on sloping land to hold back rain water and silt, and build small cellars to keep rain water.

The Yellow River Planning Commission has drafted the first phase of the project to be carried out before 1967. It stipulates that the hydro-power station to be built at Sanmen Gorge will have an average annual output of 4,600 million K.W.H. The hydro-power station at Liukia Gorge will have an annual average output of 5,230 million K.W.H. The reservoirs at these two stations will guarantee the requirements of irrigation and navigation along the lower reaches. Construction of the Sanmen Gorge Reservoir and the hydroelectric power station will begin in 1957 and completed in 1961. Reservoirs on the tributaries below the Sanmen Gorge will be completed before 1964. For the sake of dealing with any flood greater than that of 1933 which may happen before the completion of these projects, it is necessary to take a series of temporary, flood-prevention measures in the lower reaches. The dykes along the lower reaches will be further raised and reinforced in the next few years. The installations of the flood-retarding areas will be strengthened and expanded and the flood-preventing work will be stepped up. As to irrigation, the first-phase of the plan calls for the building of three dams on the main river at Chingtung Gorge (Chinchi, Kansu Province), Tukowtang (Tengchow, Inner Mongolia), and Taohwayu (Chengkao, Honan Province) and the construction of irrigation canals in these districts. According to the first phase of the plan, over two million hectares of land will be benefited by the new irrigation projects. In the meantime, the work of irrigation in the original area of nearly 800,000 hectares will be improved.

When the first phase of the plan is completed, the Yellow River will become navigable in the 703 kilometre sector from the mouth to Taohwayu in Honan, the 843 kilometre sector from Chingshui River of Inner Mongolia to Yinchuan in Kansu, and two other sectors in the Sanmen Gorge Reservoir and the Liukia Gorge Reservoir. Agricultural output in the Yellow River basin will be doubled and completion of the plan of building silt-refraining reservoirs on its silt will be reduced by one half. According to preliminary estimate, the investment of 5,324 million yuan is required for the completion of the first phase of the plan. The plan predicted without any foundation that with the completion of the first phase of the project, irrigation alone would increase annual grain output by 2,735 million kilogrammes, and annual cotton output by 200 million kilogrammes yielding 856 million yuan a year or 8,560 million yuan in ten years. The Government therefore demands the unanimous support of the workers, peasants and intellectuals of the whole country to conquer the Yellow River. There is so much to be done in so short a period with so limited resources that life will be very hard indeed for people in China during the next half century.

FINANCE & COMMERCE

HONGKONG EXCHANGE MARKETS

U.S.\$

(September 19-24)

Sept.	T.T. High	T.T. Low	Notes High	Notes Low
19	\$583½	583½	579	578¾
20	583½	583½	578	577½
21	583½	583½	577½	576¾
22	583½	583½	577½	577½
23	583½	583½	577½	577½
24	583½	583½	578½	577½

D.D. rates: High 581½ Low 581.

Trading totals: T.T. US\$1,560,000; Notes cash US\$509,000, forward US\$730,000; D.D. US\$425,000. There was more liquidation in Notes during the week. Difference between T.T. and Notes was about 5 points. Supply of notes was abundant but demand was weak. Rates reached this year's lowest mark. In T.T., funds from Bangkok, Japan and Korea were available while demand from gold and general importers was strong. Interest favoured sellers and amounted to \$3.00 per US\$1,000. Positions taken in

forward figured at US\$2½ millions. In D.D., overseas Chinese remittances reached the highest mark before the Mid-Autumn Festival.

Yen and Piastre: There was no business in forwards. Interest for Piastre amounted to 70 HK cents per 10,000 in favour of sellers. No interest was fixed for Yen. Cash quotations were HK\$1,425 per Yen 100,000 and HK\$775—755 per Piastre 10,000.

Far Eastern Exchange: Highest and lowest rates per foreign currency unit

in HK\$: Philippines 1.925—1.91; Japan 0.0144—0.0142; Malaya 1.88; Indochina 0.08—0.078; Thailand 0.253—0.245. Sales: Pesos 360,000; Yen 115 millions; Malayan \$330,000; Piastre 11½ millions; Baht 5 millions. The market was quiet. Marked recovery of Baht was recorded.

Chinese Exchange: People's Bank notes quoted at \$185 per Yuan. Taiwan Dollar notes at HK\$163—161 per thousand; remittances HK\$157—154.

Bank Notes: Highest and lowest rates per foreign currency unit in HK\$: England 15.55—15.43; Australia 12.05; New Zealand 13.66—13.65; Egypt 14.90—14.80; South Africa 15.35—15.30; India 1.17375—1.17; Pakistan 0.99—0.98; Ceylon 0.95; Burma 0.71; Malaya 1.836—1.832; Canada 5.855—5.85; Philippines 1.98—1.975; Macao 1.02—1.015; Switzerland 1.35; France 0.0154; Indonesia 0.12; Thailand 0.237—0.235.

Gold Market

Sept.	High .945	Low .945	Macao .99
19	\$252½	252¼	262½ High
20	252½	252¼	
21	252¾	252¼	
22	252	251¾	
23	251¾	251¾	Low 262
24	252¼	251¾	

The opening and closing prices were \$252½ and 252, and the highest and lowest \$252½ and 251½. The market remained quiet. Flat rate was fixed for the change over. There was very little speculative activities. Trading amounted to 21,300 taels or averaged 3,550 taels per day, and positions figured at a daily average of 23,500 taels. Cash sales totalled 25,300 taels (1,800 listed and 23,500 arranged). Imports were all from Macao and amounted to 20,500 taels. A shipment of 48,000 fine ounces reached Macao. Exports totalled 21,000 taels (9,500 to Bangkok, 6,500 to Indonesia, 4,000 to Singapore, 1,000 to India). Differences paid for local and Macao .99 fine were \$12.20—11.80 and 11.90—11.70 respectively per tael of .945 fine. Cross rates were US\$37.77—37.75. 35,200 fine ounces were contracted at 37.75 C.I.F. Macao.

Silver Market: Prices improved on continued demand from exporters. Bar silver quoted \$6.05—6.00 per tael with 2,000 taels traded, \$ coins \$3.95—3.92 per coin with 2,000 coins traded, 20 cent coins \$3.01—3.00 per 5 coins with 1,500 coins traded.

HONGKONG SHARE MARKET

The market was very dull last week and prices of popular shares drifted downwards during the week. Yau-matis dropped to \$116 on account of market disappointment with the dividend of \$2.50 per share free of tax. Fluctuations on the whole, however, were fractional and the undertone turned steady by the end of the week with several shares registering gains.

Docks rose sharply to \$29; Cements advanced to \$38½; Telephones reached \$34½; Wharves improved to \$73 and Lands steady at \$64½. Although Singapore rubber prices were down from 152½ Straits cents a pound to 148½, Amalgamateds and Trusts both closed higher on the week. The General Managers for Amalgamated Rubber Estates Ltd. announced a final dividend of 15 cents per share, free of tax.

Monday: The market remained in the doldrums and apart from Yau-mati Ferries which recovered some lost ground, price changes were negligible. The turnover for the day amounted to approximately \$940,000. **Tuesday:** Dull conditions continued on the market with little variation in rates. The turnover for the day amounted to approximately \$780,000. **Wednesday:** The market ruled steady during the half day session. Only a small quantity of shares changed hands. The turnover amounted to approximately \$460,000. **Thursday:** Trading was extremely quiet during the forenoon. However, signs of enquiry towards the close firmest Cements and Docks. Rubbers were also a shade firmer. Yau-matis lost slight ground on account of market disappointment in the Interim Dividend. The turnover for the day amounted to approximately \$1 million. **Friday:** The market ruled steady on the closing day of the week. The volume of business showed improvement and the turnover for the day amounted to approximately \$2,170,000. Cements advanced to \$38½ under sustained support. Lands were active and fractionally higher whilst Utilities were in good demand. In the afternoon, Dairy Farms fell sharply to \$22 on dis-appointment at the interim dividend announcement of 60 cents per share less tax but closed above the lowest levels for the day on late support. Wheelocks were active with approximately 24,000 shares changing hands at \$9.85. Rubbers were moderately active and steady.

SINGAPORE SHARE MARKET
(September 10-16)

Markets opened briskly and the volume of business showed an increase, but threatening strikes in Singapore caused a gradual falling off in tempo, and the closing was less cheerful. Initially Industrials were well supported on the firm rubber market and on hopes that the timely goodwill mission to Indonesia will lead to some relaxation of the measures which have limited Indonesia's trade with Singapore. Tins went from irregular to firm and rubbers made further headway. Amongst the leaders in the Industrial section were Straits Traders with buyers at \$24.75 and Wearne Bros. which had consistent demand up to \$2.92½. Despite a threatened strike,

Metal Box at \$1.55 were only 2½ cents below best, also 2½ cents off were Singapore Cold Storage at \$1.77½. Gammons had a considerable turnover around \$2.72½. Fraser & Neave were firm at \$1.77½ and Malayan Breweries had greatly increased inquiry up to \$2.55. With takeover prospects in view, London ignored the service of strike notice to the Singapore Traction Co. and bid up to 28/6. Hammer and Co. remained neglected at \$2.62½ cum 10%. Sime Darby had intermittent exchanges at \$1.97½ and United Engineers at last came in for good enquiry around \$11.00.

In the Tin section dollar counters attracted greatly increased attention. Kuchai were taken from \$2.05 to \$2.15 and Talam Mines had considerable exchanges at \$2.00 and closed 2½ cents higher. Petalings passed at \$4.60 and \$4.57½. Sungei Way continued upwards to \$3.55 and Taiping Consolidated suddenly found favour and climbed rapidly to \$1.67½ buyers.

Amongst locally registered sterling tins, Lower Perak had a large turnover mostly at 15/-. With no supply from London, demand was met by profit takers. Kuala Kampar touched 31/- but closed with sellers 3d. lower. Austral Amalgamated had buyers at 16/- and Rawang Tinfields at 10/6.

Kamunting Tin were taken from London at 10/3 and Siamese Tin at 8/7½ and 8/10½.

Rubber shares had much wider inquiry and improved both locally and in London. Batu Lintang had buyers at \$1.67½ and Glenealy at \$1.40. Langkon North Borneo were taken from London from 2/3 to 2/4½. Changkat Serdang had exchanges at \$2.62½ and \$2.65 but due to shortage of scrip closed buyers \$2.70.

United Kingdom Gilt Edged continued to attract funds and local loans had a much better turnover.

CHINA'S FOREIGN TRADE VIA HONGKONG

There was an increase in direct trade between China and other countries via Hongkong on through bills of lading during the month of August. Cargoes included manifold paper, sewing needles, chillies, raw silk, wire tacks and raw medicines to Bombay, Ceylon, Singapore and Port Swettenham, while there was also a shipment of raw weasel skins and cotton goods to Canada.

HONGKONG'S EXPORT OF STEEL BARS

The Colony's export of steel bars remained active. Of the 1,785 tons exported during August, Hongkong manufactured steel bars constituted 1,517 tons (86%). Details are as follows:

HONGKONG AND FAR EASTERN TRADE REPORTS

Korea provided strong demand in the local commodity market last week; but the volume of business was curtailed by short stock of popular items. Southeast Asia was keen in a large number of commodities; but orders were limited to small quantities. Japan was only interested in China produce; while China and Taiwan remained quiet during the week. Popular items of paper made good gains during the week; China produce enjoyed strong but selective demand from various sources; metals were kept firm by enquiries from Thailand and steady local consumption; pharmaceuticals registered small exports to Southeast Asia; industrial chemicals attracted more enquiries than orders from overseas; while cotton

yarns and piece goods remained steady despite sluggish trading in the local market.

TRADE DEVELOPMENTS

Trade Restrictions: Irish Minister of Commerce declared in a letter to some Irish manufacturers that he was determined to provide adequate protection against cheap imports from Eastern sources for Irish industries and its workers. Based upon the same letter, the Sunday Press reported from Dublin that the Irish Government would not authorise the sale of cheap men's shirts offered by Hongkong firms at 'fantastically low prices.' Exports of Hongkong products to the Netherlands must now be covered by approved import licences plus certificates of origin.

Freight Rates: The Royal Inter-ocean Lines will increase the freight rates from Hongkong to South American ports—Buenos Aires, Rio de Janeiro, Santos and Montevideo—by 10% as from October 1, 1955.

China Trade: A new trade agreement was signed in Peking between Chinese authorities and the visiting Japanese industry and commerce delegation. China would supply Japan some 400,000 tons of coal in exchange for Japanese black iron plate waste and steel plates of an equivalent value. East Germany and China agreed to exchange more goods than the present trade pact provides for. China would send extra tea, meat, preserved fruit and mining products in exchange for East German machinery, electrical, optical and precision instruments.

Japan Trade: Leading Japanese businessmen urged the Government to request the easing of embargo to allow the export of items such as ships, rolling stocks, steel building materials, engines, electrical machines, chemicals and plastic products to China. The trade agreement signed between Japan and Indonesia calls for the barter of commodities amounting to a total value of US\$44.8 million during the next five months. In return for Indonesian sugar, Japan would export bicycles, textiles, earthenware, electrical appliances, agricultural and marine products and sundries.

Korea Trade: Seoul offered Tokyo to re-open trade negotiation which was broken by Korea's enforcement of the blanket ban on imports from Japan at the end of August. Korea wished to buy 140,000 tons of chemical fertilisers from Japan. In the local market, Seoul bought substantial quantities of wheat flour, fertiliser, woodfree printing and newsprint, knitting wool and woollen piecegoods, canned food and sundries. Increased number of L/Cs reached here from Korea during the week. Shipments to Pusan were expedited. Seoul also invited tenders for the supply of coal, fertilisers and structural steels.

Indonesia Trade: Authorities in Djakarta resumed accepting import applications after the promulgation of new trade regulations. During the week, Djakarta also announced that imports after October would be subjected to additional charges by the bank. The import tariffs for luxuries were increased. Tenders were invited by Djakarta for the supply of industrial machinery, machine tools, laboratory equipment, technical books et cetera.

Thailand Trade: Demand from Thailand was keen for blankets, metals, paper, pharmaceuticals, industrial chemicals and sundries. Business, however, was curtailed by the increased import tariffs for various commodities and the fluctuation of prices in Thailand.

The Philippines: Authorities in the Philippines suspended all imports financed by self-provided foreign exchange. All shipments must now be covered by L/Cs and consular invoices. Many shipments were postponed during the week on account of the new regulation.

Burma Trade: Rangoon announced that all imports should be covered by officially approved L/Cs. D/P shipments are no longer allowed.

Indochina Trade: Exports to Vietnam remained active but limited to small quantities. Shipments during the week consisted mainly of sugar, aluminium-ware, wheat flour, cotton yarn, paper, sundries and foodstuffs.

Singapore Trade: Due to heavy re-exports to Thailand, Singapore sent here more orders for shirts, textiles, enamelware, aluminiumware, torch light and batteries, plastic goods, foodstuffs and fruits.

COMMODITIES

China Produce: Japan bought large quantities of woodoil, cassia oil, sesame, mustard seed, rosin, silk waste and maize from the local market. Woodoil was further stimulated by demand from Australia, New Zealand and local paint factories. Aniseed oil attracted orders from Europe after China had marked down the export floor price. Citronella oil failed to advance on orders from Europe as a result of the improved supply situation. Groundnut oil registered gains on increased local consumption. Black and green tea made appreciable advances on strong demand from UK and Australia respectively. Garlic improved on exports to Southeast Asia; while menthol crystal firmed up with the dwindling of stock and enquiries from India. On the other hand, leathers eased from the recent gains when Europe slowed down her purchases.

Metals: Increased cost forced up prices of mild steel round bars, galvanized iron sheet, brass sheets in rolls, tinplate waste waste and mild steel plate. The market registered only

Destination	Foreign Manu- facture	Local Manu- facture
Australia	NIL	113 tons
Bangkok	35 tons	225 tons
British East Africa ..	NIL	828 tons
British North Borneo ..	50 tons	59 tons
India	1 ton	NIL
Macao	6 tons	16 tons
New Zealand	NIL	276 tons
Taiwan	176 tons	NIL
Total	268 tons	1,517 tons

HONGKONG'S RICE, COAL AND MEAT IMPORTS

A total of 20,918 tons of edible rice were imported during August, bringing the total for the first eight months of the year to 161,308 tons compared with total off-takes of 147,079 tons. The Director of Commerce and Industry claimed that there was no evidence of any smuggling of rice into the Colony during the present year. The wholesale price of rice rose by \$1 to \$2 per picul during August, reflecting the movement in Bangkok f.o.b. prices. The ban on "ex-ship" sales of bituminous coal continued in August with a view to reducing stocks on hand to a commercial level. This objective has not yet been achieved. In consultation with the meat trade, a revised quota system has been worked out by the Department of Commerce and Industry to take effect from October 1. Greater flexibility will be achieved by varying quotas to meet the requirements of individual importers while ensuring that adequate supplies are available to meet the needs of the public.

RUBBER OUTPUT

Messrs. A. R. Burkill & Sons (Hongkong) Ltd., the General Managers of AMALGAMATED RUBBER ESTATES LTD., announced that the output from the Estates for the month of August, 1955 amounted to 625,185 lbs. The total output for two months, July/August, 1955 was 1,265,989 lbs.

small orders from various sources. Korea was interested in wire rods and structural steels; Vietnam in wire rods; Thailand in blackplate waste waste, mild steel plate, steel boiler tubes and iron wire nails; Taiwan in black plate waste waste and zinc sheets; and Malaya in steel wire rope. Structural steels, galvanized iron sheets and pig lead enjoyed steady local demand.

Paper: Trading was active during the week with orders from Korea for wood-free printing, newsprint in reels, M.G. pure sulphite, glassine, tissue and art printing. Vietnam purchased art printing, manifold, transparent cellulose paper and cigarette paper; while local demand covered woodfree printing, art printing, manifold, unglazed kraft, M.G. pure sulphite, pitched kraft, transparent cellulose paper, duplex and strawboards. Unglazed kraft, M.G. ribbed kraft and pitched kraft were further stimulated by marked-up indent quotations from Scandinavia. Woodfree art printing, tissue, cigarette paper and aluminium foil advanced also on account of low stock. Liquidation by speculators eased newsprint in reams; while heavy arrival from China forced down manifold and bond. Japan marked down many indent offers to compete with Chinese products in the sales to Southeast Asia and to local consumers.

Industrial Chemicals: Trading was slow. Caustic soda, granular borax

and red phosphorus were firm on short stocks; chlorate of potash and stearic acid gained on orders from Korea and Taiwan; while calcium hypochlorite, acetic acid and sodium nitrate failed to improve despite marked-up indent offers. Demand from Korea also covered linseed oil, industrial tallow, sodium cyanide and sodium hydrosulphite. Thailand enquired for oxalic acid but made no purchase during the week.

Pharmaceuticals: There was only selective demand from various sources: Korea—glucose powder; Thailand—saccharine crystal and lactose, penicillin preparations, quinine powders, phenacetin and sulphonamides; Taiwan—sulphonamides. Prices were steady.

Cotton Yarns: Hongkong products were steady on orders from Korea, Indonesia and Vietnam. Indian yarns were weak at the beginning of the week inspite of the possible increase in freight charges; later firmed on enquiries from Vietnam. Japanese yarns remained steady on low stocks. Trading in the local market remained sluggish.

Cotton Piece Goods: Japanese white shirtings were firm on orders from Vietnam. Prices of other products were steady.

Rice: Higher cost of Thai rice and the possible cut in supply from China stimulated prices inspite of heavy arrivals from various sources. Transactions totalled about 45,000 bags during the week.

Wheat Flour: Demand from Indochina and Korea plus increased local consumption with the approach of the Mid-Autumn Festival stimulated various products; but shortage of stocks curtailed the volume of trading. Only a little over 7,500 bags were transacted during the week.

Sugar: The market was sluggish and prices weak. Inspite of exports to Vietnam, Japanese sugar declined on account of heavy supply. Taiwan sugar also weighed down by new arrivals. Taikoo granulated registered better local business following the reduction of its selling price from \$43.50 to \$43 per picul.

Cement: Chinese products were offered at only \$107 per ton in order to compete with Japanese cement. At \$119 per ton, Japanese cement remained popular with local and overseas buyers. Hongkong products registered limited exports to Southeast Asia at firm prices.

Hongkong Manufactures: Hongkong manufactured knitting wool and worsted yarn enjoyed fairly active demand from Korea. Hongkong will not participate in the 1956 British Industries Fair as HK products are now well known in England. However, Hongkong will take part in several other large International Fairs to be held during the year, such as that at Hamburg.